Staying Connected
How and where we get information to help us make decisions is rapidly changing the automobile industry, including remarketing. Staying connected to the facts, analysis and trends that influence the used vehicle marketplace is as critical to success as embracing emerging technologies to stay connected to customers.

Coach Webb: “Manheim makes this so easy even an economist can do it.”

2  A Note from Dean Eisner

3  Year in Review and Outlook
A solidifying recovery promises increased revenue and profits for most industry participants in 2011.

9  The Used Vehicle Marketplace
Rising demand for used vehicles pushes wholesale auction prices higher as dealers compete for scarce inventory.

15  The Remarketing Industry
Auctions build confidence, reduce expenses, and maximize benefits for buyers and sellers irrespective of where, when, or how they choose to transact.

26  Dealers
Franchised dealers broaden their used vehicle offerings and independent dealers benefit from the greater availability of subprime credit in 2010.

38  Rental
Auction prices for off-rental units reach record highs.

45  Leasing
Credit availability improves and used vehicle residuals move higher.

50  Repossessions
Lenders enjoy a reduction in both the frequency and severity of loss on repossessions in 2010.

55  Commercial and Government Fleets
New vehicle sales into commercial fleets rise by more than 33% in 2010, and end-of-service fleet units command exceptionally strong auction prices throughout the year.

62  Salvage
Salvage vehicle prices soar, mirroring the trend in whole car prices throughout 2010.

Coach Webb: “Manheim makes this so easy even an economist can do it.”
It wasn’t so long ago that Manheim’s Simulcast first enabled dealers to experience the energy and action of live auctions while bidding on vehicles through their office computers. This early innovation awakened everyone to the potential of technology for a more efficient and superior remarketing experience. The technology and system architecture supporting virtual auctions have given buyers and sellers the flexibility to interact 24/7. Now, mobile functionality allows customers to have the same experience using a smartphone or tablet as they do with their desktop computer.

Vehicle consignors and dealers are recognizing the value of using strategies to sell and buy vehicles using the Internet and physical locations. Consignors aim to shorten the time to sale, and dealers find the vehicles they need by accessing the large inventory in multiple live and online sales.

The most challenging obstacle to unlocking the full potential of remarketing in the future is giving dealers the confidence to buy vehicles without actually inspecting them. When all transactions occurred in the auction lanes, dealers perfected their skills at valuing each vehicle. But in the virtual world, our business has to serve as the conduit of confidence between the buyer and seller.

Manheim has always been a strong advocate for detailed and uniform inspections and condition reports, which benefit sellers as much as buyers. This year the National Auto Auction Association (NAAA) adopted standards with respect to inspections and condition reports, arbitration and certification. Now dealers can count on the accuracy and comparability of condition reports and focus more on the vehicles they need, not the channel through which those vehicles are being sold.

Strong evidence of how technology and market conditions shaped behavior this year was evident through visitor traffic to Manheim.com, the portal through which buyers and sellers conduct business with us and each other. In more than four million visits each month, customers searched inventories, managed their accounts, accessed our live and online (virtual) auction channels, and much more. We continue to invest in Manheim.com, including its extension into the mobile world, with the aim of making it easier and faster to conduct business from any location and at anytime. Customers clearly want a remarketing experience that reflects Manheim’s philosophy of Anytime+Anywhere.

I hope you’ll enjoy the 16th edition of Manheim’s Used Car Market Report, and I welcome your comments, questions and suggestions. I look forward to meeting with you and sharing ideas about our company and our industry. Please feel free to contact me at deisner@manheim.com.

Dean Eisner
President and CEO
It’s been more than a year since we first suggested that the recovery would take the form of an “upward-slanted W.” We did so to temper (and, as it turned out, rightly so) the expectations of industry participants who felt that the economy’s sharp downturn would produce an equally sharp bounce-back.

Thus, the “upward-slanted W” was often construed as a downbeat message. But it also incorporates good news. For one, there’s that upward slant. Couple that with the rise in the middle of the “W” and you get a period of better than average growth. The coming year may well be that period. To be sure, several headline numbers, like real GDP, will fail to grow at the rate they did in previous recoveries due to structural changes in the economy and housing’s inability to meaningfully contribute to overall growth. But, there will also be industries, such as autos, that will post sizable percentage and unit gains off of their current low base. These businesses, having already gone through restructurings and rightsizings, will enjoy revenue growth that leads directly to stronger profits. That, in turn, will bring increased hiring and investment – assuming that business owners are convinced of the recovery’s sustainability. Will they be convinced? Let’s consider the evidence – from the overall economy to new and used vehicle sales, to the remarketing industry.
Labor Markets: Focus on the Doughnut, Not the Hole

In 2010, total nonfarm payrolls increased by 1.1 million. Unfortunately the peak-to-trough decline in employment during the recession was 8.4 million. So, a lot of catching up remains to be done.

Or, to be precise, even if employment grows by 2.2 million in 2011 (a reasonable, if slightly optimistic, assumption), then at year-end we will still be 5 million jobs below the previous peak. And, as the labor market improves, new entrants will join the workforce, and previously “discouraged” workers will return. As such, the official unemployment rate will remain painfully high. (Getting back to 9% would be a laudable achievement.)

Monthly Change In Private Sector Payrolls
3-month Moving Average
In Thousands

![Monthly Change In Private Sector Payrolls](image)

That’s why we say “concentrate on the doughnut (employment), rather than the hole (the unemployment rate).” After all, it is the employed who buy new and used vehicles, not the unemployed. And, although people are sensitive to the plight of their unemployed friends and neighbors, real concern and shifts in behavior arise only when people feel they might join the ranks of the unemployed. Job growth, even if it is modest, increases consumer confidence. And increased consumer confidence, even if it is not joined by significantly higher wages or easier access to credit, leads to stronger retail sales. We saw proof of that in the fourth quarter of 2010.

Consumers Spend Responsibly

Retail spending in 2010 went through several phases – strong in the early spring, a summer stall, and then a pick-up in the fourth quarter. Spring’s strength was prompted by record tax refunds and some direct monies that flowed from the federal stimulus program. The summer stall reflected the longer-term restraint that a higher savings rate imposes on consumer spending. The fourth quarter resumption in spending was confirmation that the upward shift in the savings rate was complete and that the economic recovery had taken hold. In 2011, the consumer sector will be a key support to the growth in the overall economy.
Credit Availability Will Support Economic Growth

At year-end, banks held nearly a trillion dollars in excess reserves. And, at the same time, consumers were increasing spending while simultaneously reducing credit card debt. Given that, it is very unlikely that government borrowing will crowd out the private sector in the capital markets. Our federal debt is certainly a significant factor behind our cautionary warning at the end of this review, but it is not an immediate threat to the proper functioning of the capital markets.

We will, however, see higher rates. Already, in the immediate aftermath of the Federal Reserve’s announcement that there would be another round of quantitative easing, the yield on 10-year Treasuries moved above 3.5% after hovering in the 2.5% range just two months prior. The rise in long-term rates was driven by both higher inflation expectations and a stronger outlook for economic growth. Short-term rates, which more closely impact auto finance rates, have not risen as much. As a result, the already steep yield curve steepened further at year-end.

Yield Curve Steepens Again at Year-End
Percentage Point Spread Between 10- and 2-year Treasuries
Of more immediate threat to the smooth and efficient functioning of the credit markets are the rules and regulations yet to be (but that surely will be) written under the various pieces of financial reform legislation passed in 2010, most notably those of the Bureau of Consumer Financial Protection. Fortunately, the basic model of retail auto financing has proved its efficiency for decades, and in no way did it contribute to the collapse in the financial markets. That should help spare auto lending from onerous regulations in the future.

**Used Vehicle Sales Improve in 2010**

Used vehicle retail sales rose 4% to just under 37 million units in 2010, according to CNW Marketing Research. Although this level was considerably below the 40+ million annual sales rate of the past decade, dealer profits were strong in 2010. And there were many segments of the used vehicle market where both unit volumes and profits were exceptional. The percentage gain in used vehicle sales in 2010 was less than half that of new vehicles, but used vehicle sales also had a much less severe decline during the recession. As a result, the ratio of used vehicle sales to new vehicle sales remained well above 3 to 1.

At the high end, manufacturer-certified pre-owned sales rose 7% to 1.6 million units. Similarly, the seven publicly traded dealership groups had double-digit percentage growth in their sales-weighted same-store used vehicle retail unit volumes in each of the first three quarters of 2010.

**Percent Change Used Units Retailed – Same Store Basis**

*Publicly-Traded Dealership Groups*

Weighted Average for KMX*, AN, PAG, SAH, GPI, ABG, and LAD

The sale of lower-price used vehicles was aided by the resurgence in subprime lending, which in 2010 increased its share of total used vehicle financing for the first time since 2007. And, for dealers with reliable access to capital, Buy-Here, Pay-Here operations continued to provide opportunities for growth.
New Vehicle Sales Begin Their Next Leg Up

After falling to a 27-year low in 2009, new vehicle sales increased 11%, or by more than 1.1 million units, in 2010 to 11.6 million. That still left sales at their second-lowest level in 28 years.

With 2010's increase driven by a 22% jump in fleet purchases and a 9% rise in retail volume, the fleet share of the new vehicle market rose to 18%, its highest level since 2007. This should not be interpreted as manufacturers boosting sales on the back of giveaways to fleet buyers. Fleet purchases in 2010 arose from legitimate business needs, after a very low level of acquisitions in 2009. Thus, the high fleet share in 2010 was not the result of high fleet sales, but rather low retail sales.

But, those retail sales (which showed acceleration throughout 2010) are poised to make a nice gain in 2011. The consensus outlook for total new vehicle sales in 2011 is just shy of 13 million. And, for the first time in years, our forecast is not below the consensus. Indeed, we feel there is a good chance for an upside surprise. And, in 2011, the growth will be driven more by retail sales than by fleet sales, as commercial purchases have already returned to almost their normal state.

New Car & Light-Duty Truck Sales
Seasonally Adjusted Annual Rate – 3-Month Moving Average
Millions of Units

We would still caution, however, against overly ambitious expectations for the years beyond 2012, as the level of underlying demand built into some forecasting models appears high. Clearly, there has been a decades-long decline in the scrappage rate and in the ratio of new vehicle sales to the number of U.S. households. Additionally, it is illogical to believe that the growth in the vehicle parc will ever return to the 6+ million a year pace that was achieved in between 2004 and 2006.

This tempering of long-term volume assumptions does not equate, however, to a negative view for overall industry prospects. Because of restructurings, cost re-alignments, and structural shifts in the industry, most industry participants will make good money in a 13 million new vehicle sales environment. At 15 million, they will make great money.
A Cautionary Note:
For the first time in years, our assessment of the economic outlook is upbeat and, indeed, is slightly more optimistic than the assessments of others. As such, it seems right to point out what might go wrong. European sovereign debt issues are clearly at the top of the list. As 2010 ended, there was another flare-up in the debt markets of Ireland, Greece, Portugal, and Spain. Spain is the most troubling, simply because of its size. Spain’s problems are less severe than the others, but its GDP is larger than the other three combined. And Spanish banks hold some 75% of Portugal’s debt, which was recently downgraded. The European Union’s ability to address the issue, while maintaining the euro’s value, is questionable.

In addition, we have our own debt issues at the federal, state, and local levels. Our problems are more capable of being addressed, but the resulting simultaneous deleveraging in the government and private sectors will produce a tenuous recovery. And it will remove the flexibility to respond to any growth reversal that may occur if, for example, housing takes another slide back or if energy prices spike.

Thus, although we are optimistic for 2011 (and probably 2012 as well), our advice is “enjoy the ride while it lasts, because it might not end nicely.”

Auction Industry: Three Years of Declining Volume and More Challenges Ahead
After declining for three consecutive years, auction volumes in 2010 were estimated to be 12% below 2007’s level. Facing the loss of more than 300,000 off-lease units in both 2011 and 2012, the auction industry will continue to face a tough environment from a volume standpoint. To be sure, dealer consignment volumes are on the rise – and that’s a good thing – but low new vehicle sales over the past several years equates to low used vehicle production. And the auction industry can only facilitate the transfer of that which was already produced.

Although the auction industry itself has not yet fully benefited from the economic and automotive recovery that is under way, auctions have contributed to the success of others. For example, it is hard to imagine how dealers would have coped with rising used vehicle demand and restricted used vehicle supplies without the services of the auction industry. Online searching and the ability to buy anytime, anywhere enabled dealers to profitably grow their used vehicle operations. The auction industry should rest assured that helping others succeed always pays long-term dividends.

Auction Volumes

![Diagram: Annual Growth of Vehicles in Operation

Source: R.L. Polk]

![Diagram: Auction Industry: Three Years of Declining Volume and More Challenges Ahead](Source: R.L. Polk)

![Diagram: Auction Volumes](Source: Manheim Consulting)

*All other includes commercial fleet sales and Canadian sales
New and used vehicle sales increased in 2010 after declining the previous four years. New vehicle volume rose 11% to 11.6 million units, based on a 22% increase in fleet deliveries and a 9% increase in retail sales. Used vehicle sales, which typically exhibit smaller year-to-year fluctuations than do new vehicles, rose 4% in 2010 to just under 37 million units.

Total retail used vehicle transactions were composed of:

- Franchised dealer sales (12.8 million, unchanged from 2009),
- Independent dealer sales (13.0 million, up from 11.7 million in 2009),
- Private party sales (11.1 million, up from 11 million in 2009).

Wholesale used vehicle transactions, which are needed for the efficient functioning of both new and used vehicle markets, totaled more than 19 million in 2010, of which 8.4 million of the transactions were handled by NAAA-member auctions.

Used vehicle purchasers sometimes have less flexibility over the timing of vehicle replacement than new vehicle buyers do. While some purchases are necessitated by an accident or the mechanical failure of an existing vehicle, the majority occur because owners are trading up to a newer or different type of vehicle, often associated with lifestyle changes. The result is smaller year-to-year fluctuations in overall used vehicle demand. Nevertheless, used vehicle demand is cyclical, just not as cyclical as are new vehicle sales.
Each year between 2008 and 2010, the ratio of used vehicles retailed relative to the number of vehicles in operation fell below 15%. This reduction in the “churn” from a more normal 17% to 20% resulted from a combination of factors. Tight floorplanning, and the gradual opening of retail credit, limited the growth in used vehicle sales by dealers. Nonprime customers faced larger downpayment requirements and higher interest rates than the last time they bought a vehicle. And, with the general deterioration of credit quality across the entire population, many shoppers who could have qualified for conventional loans a few years ago had to rely on dealer-financed credit in Buy-Here, Pay-Here stores.

High unemployment and economic uncertainty constrained used vehicle sales as owners held on to their vehicles instead of trading up. The economic environment even influenced owners of vehicles that were declared a total loss. For a second consecutive year, a higher percentage of insured owners opted for a cash settlement and made repairs to their damaged vehicles rather than surrendering the vehicles to their insurance companies. In more normal times, these owners would have purchased a replacement used vehicle.

Certified Pre-Owned (CPO) Vehicle Sales Rose 7% in 2010

In 2010, Certified Pre-Owned (CPO) retail sales rose 7% to 1.6 million units. Luxury brands have long embraced certification as a way of supporting the sales of off-lease vehicles. Although luxury brands continued to post high CPO sales, mass-market foreign nameplates, such as Toyota, Honda, Nissan, Hyundai, and Volkswagen, had the largest gains in 2010. Franchised dealers of mass-market brands focused on CPO units as part of their increased emphasis on used vehicles. Chrysler and General Motors, again able to offer special finance terms to buyers of CPO vehicles, were able to grow CPO sales in the second half of 2010.

The Auction Industry: The Intersection of the Wholesale and Retail Markets

The North American members of the National Auto Auction Association (NAAA) sold nearly 8.4 million vehicles in their lanes and, in online channels. Nearly another million vehicles, mainly late-model cars and trucks, were remarketed through third-party online channels that are not members of NAAA.

In total, 10.6 million wholesale transactions occur outside of NAAA-member auctions. These include lessee purchases of their leased vehicles, dealer-to-dealer trades, rental fleet sales to dealers, fleet sales to employees and dealers, transactions at non-member physical auctions, and dealer-to-wholesaler sales. The pricing of wholesale used vehicle transactions outside the auction process is based upon price data generated within the auction industry and made available directly through Manheim Market Report or through various wholesale pricing guides.
“For 2011, it is recommended that dealers have multiple channels working together to stimulate the acquisition of cars.”

Scott Penza, Manager
Pre-Owned Operations, Mercedes-Benz
Auto Remarketing, December 8, 2010

### Average Mileage on Vehicles Sold at Auction Rises Again

As a consequence of the aging vehicle population, a reduction of new vehicle sales into rental, and fewer late-model repossessions the age distribution of used vehicles remarkeeted through auctions continued to shift to older units in 2010.

#### Percentage Distribution of Auction Sales by Model Year

In 2009, there was a pronounced decline in the share of auction sales accounted for by current model year and newer vehicles. That was a direct result of the reduction of new vehicle sales into rental and the shift away from program units. In 2010, the share of auction sales accounted for by these younger vehicles did not materially grow and, in fact, was joined by a significant reduction in share accounted for by vehicles from one model year past.

Also evident in the above chart is the movement down, and then back up, in the share of sales accounted for by vehicles from two to three model years past. This reflects the swing in off-lease volumes and, as such, we can be assured that the share will move down again in the coming years.

The graph also shows the significant share increase accounted for by vehicles from 7 or more model years past – from 18% in 2003 to 27% in 2010. This stems from the overall aging of vehicles in operation and, in 2010, the growth in dealer consignment volumes, which often skew toward older vehicles that were taken in trade.

With respect to mileage, in 2010, every market class of vehicle had higher average mileage at time of auction sale. Naturally, the biggest increase in miles occurred in those segments that earlier had the largest decline in new sales. For example, the average mileage on pickups, vans, and SUVs rose by a double-digit rate between 2007 and 2010. Average mileage on compact cars sold at auction rose only 5% during this period and the increase for luxury cars (many of which come back as off-lease units) rose only 4%.
2010 Remarketing Volumes

<table>
<thead>
<tr>
<th></th>
<th>Total number of vehicles to be remarked (in millions of units)</th>
<th>Share to auction (includes online and physical auctions) (in millions of units)</th>
<th>Percent sent to auction</th>
<th>Percent of total auction volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dealer</td>
<td>11.21</td>
<td>3.83</td>
<td>34%</td>
<td>45.4%</td>
</tr>
<tr>
<td>Repossession</td>
<td>1.55</td>
<td>1.23</td>
<td>79%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Off-Lease</td>
<td>2.57</td>
<td>1.44</td>
<td>56%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Rental (Program and Risk)</td>
<td>1.42</td>
<td>0.90</td>
<td>63%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Fleet</td>
<td>1.65</td>
<td>0.73</td>
<td>44%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Other*</td>
<td>0.65</td>
<td>0.30</td>
<td>46%</td>
<td>3.6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19.05</strong></td>
<td><strong>8.42</strong></td>
<td><strong>44%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

* Other includes Canadian sales of repossessions, off-lease, rental, and fleet units that could not be specifically segmented into each category.  
Source: Manheim Consulting

Auction Volumes Fall for Third Straight Year

Wholesale auction volumes declined for the third consecutive year in 2010 as a result of fewer repossessions, program vehicles, and off-lease units. Even though dealers were retailing out of a higher percentage of their trade-ins, higher new and used vehicle sales generated an increase in dealer consignment sales at auctions.

Dealers Remarket the Broader Range of Vehicles in Auction Lanes

Dealers accounted for 45% of auction volume in 2010, compared to 39% in 2009, 42% in 2008, and 50% in 2007. Dealers remarket the broadest range of makes and models, from current year units to older vehicles with 100,000 miles or more. The improvement in vehicle quality over the last decade has meant that vehicles with more than 100,000 miles are attracting greater attention in the auction lanes and commanding prices that compensate sellers for the associated expenses of professional remarketing. Independent dealers and international buyers are relying on auctions more to help them find exactly the kind of inventory remarked by other dealers.

Off-rental vehicles accounted for 900,000 of the vehicles remarketed through auctions in 2010, up from 870,000 units in 2009. This represented 11% of auction volume, compared to 10% in 2009, 11% in 2008, and 13% in 2007.

Rental companies took advantage of high used vehicle prices to refresh their fleets in 2010. With a greater variety of makes in each fleet, rental car company consignments attracted more bidders, both in-lane and online. Dealers, especially independent dealers, actively bid on these vehicles since they are generally only one year old, and still have a sizable factory warranty remaining.
Repossessions accounted for nearly 15% of auction volume in 2010, down from 18% in 2009. The number of vehicles repossessed declined in 2010 because of tighter underwriting standards in place since 2008 and the low level of new and used vehicle sales in 2009. Repossession rates typically peak within the first 20 months of a loan, so volumes correlate with the age of the loan portfolio as well as its size and underlying credit profile.

Repossessions come from a variety of sources – from a loan on a new luxury vehicle that went bad early in the contract to a subprime loan on an older used vehicle that defaulted after considerable additional wear and tear on the vehicle. As such, repossessions sold at auction are composed of a wide mix of makes, models, and conditions.

In 2010, commercial fleets remarketed approximately the same number of units overall, and through auctions, as they did in 2009. As commercial fleets reduced units in service in 2009, it temporarily boosted their remarketing volumes. In 2010, fleets remarkeled 730,000 vehicles and accounted for 9% of auction transactions.

Auction off-lease volumes declined in 2010, so this highly desirable category of late-model vehicles accounted for 17% of auction transactions in 2010. Leasing accounts for between 50% and 70% of sales by luxury brands. Franchised dealers of these makes rely on this supply to provide inventory for certified pre-owned operations.

Many of the off-lease vehicles owned by captive finance companies are sold directly to grounding dealers through factory-branded upstream channels. The remaining off-lease vehicles, and those owned by independent financial institutions, are sold in online and in-lane sales to both franchised and independent dealers.

**Auctions Supply Useful Pricing Information**

Because of the scale of auctions and the open bidding environment, each transaction produces a wealth of critical information about vehicles, bidding histories, seller strategies, and buyer preferences.

The data generated by auction transactions is the primary source of used vehicle price trends and, more importantly, the current values for individual makes and models. Manheim offers its registered customers free online access to the Manheim Market Report (MMR) through their computers and smartphones. MMR enables buyers and sellers to review current market prices by make, model, trim, and region. This up-to-the-minute information is now available on mobile devices, thus enabling dealers to use this information in valuing trade-ins or buying used vehicles from non-auction sources.
Wholesale Used Vehicle Prices Reach Record High in 2010

Fittingly, wholesale used vehicle prices (on a mix-, mileage-, and seasonally-adjusted basis) rose in December to cap off a second year of exceptionally strong pricing. December’s gain meant that prices rose 5.9% for the year, and put the Manheim Used Vehicle Value Index at a record 124.4 level.

On an annual average basis, the increase in wholesale prices in 2010 (+7.4%) and 2009 (+5.1%) were the largest and the second-largest in the Index’s 16-year history. Of course, they came on the heels of the largest annual decline in wholesale pricing (-6.3% in 2008).

Relative price changes for the various market classes, on an annual average basis, were closely aligned. Vans and pickups were the strongest segments. Midsize and luxury cars lagged behind the overall market, but each still had a gain in excess of 5%. (For details and monthly updates on wholesale pricing, visit www.manheimconsulting.com.)
During the last decade, technology has expanded the ways vehicles are remarked and how buyers and sellers interact with each other. Hardware, software, and communications advancements have increased the amount of real-time information available, facilitated instant communications between buyers and sellers (and even between dealers and retail customers), and most significantly, revolutionized our definition of the used vehicle auction. In incremental but very important steps, the ability to bid on a vehicle progressed from onsite presence in a physical auction, to participation in live auctions via the Internet, to 24/7 access to regional and national inventory in virtual auctions. Each change widened the potential market for sellers and broadened dealer access to more vehicles. The ability to sell vehicles to a larger audience of bidders and to buy precisely the right vehicles increased everyone’s efficiency. In less than a decade, used vehicle remarketing moved from a once-a-week opportunity to sell and buy to an Anytime+Anywhere experience.

The future direction is clear: mobile functionality. Smartphones and tablets, such as iPads, will become as important as desktop computers, if not more so, in providing buyers and sellers online access to information as well as to the auctions themselves.

"Vehicle remarketing is not a tethered business. Buyers and sellers want to do what they need to do, when they need to do it. It is our responsibility to enable them to conduct business on their terms."

Sue Boehlke
Manheim Senior Vice President of Products and Processes

Manheim Mobile Statistics

- Over 10,000 mobile iPhone app downloads within 75 days of launch
- Mobile webtrends summary: Typical Week
  - Total visitors: 17,880
  - Total visits: 31,527
  - Average visits per day: 4,503 (5,205 on weekdays)
  - Devices: Top three are Apple iPhone (42%), Apple iPad (12%), and HTC Evo (10%)
  - Platforms: Top three are Apple iOS (53%), Google Android (36%), BlackBerry (6%)

- Manheim’s Mobile website has doubled its traffic since it was first introduced in 2010 Q1 and currently receives nearly 133,000 visits per month
- More than 13,000 users access Mobile MMR, and over 9,000 users search vehicles through the Mobile website during the month
Manheim Consulting has studied online bidder behavior with respect to floor pricing. Preliminary conclusions include:

- Dealers are not likely to “follow” a vehicle if the floor isn’t reached in two bids.
- Dealers would rather bid on a vehicle that has reached the floor price, knowing that the vehicle will sell.
- Some dealers search OVE.com only for vehicles that have reached the floor price.
- Sellers are more successful when their floor price is close to the starting bid.

Source: The Wholesale Institute

Manheim Mobile was launched in the first quarter of 2010 with applications that allowed customers to access MMR. Manheim recently unveiled an iPhone app that enables dealers to easily scan vehicles, access MMR data and connect with Manheim’s mobile website. The rollout of additional functionality and apps on devices that use other popular operating systems (such as Android) is accelerating as the variety of these devices, including new 4G phones, proliferates. In the near future, dealers will be able to manage their accounts and conduct business from their phones as easily as they do today from their offices.

Manheim Online Activity Accelerates in 2010

More than 4 million vehicles have been remarketed through Manheim online channels since they were introduced in 1996. OVE.com and Simulcast represent 21% of total Manheim used vehicle transactions, 25% of salvage volume and 33% of Specialty and Heavy Truck & Equipment sales.

OVE.com listed more vehicles, hosted more special sales events, and recorded more bids from unique bidders in 2010 than ever before. At any time, more than 25,000 vehicles are available for sale in Buy Now and Bid sales on Manheim’s 24/7 channel.

Market conditions in 2010 prompted a growing number of dealers (even if at first they were somewhat reluctant) to search for the vehicles they needed online as well as in the lanes. As more dealers gain experience and confidence in online auctions, they develop bidding practices unique to the online marketplace.

Auctions Take Further Steps to Build Buyer Confidence in the Online World

The auction experience brings buyers and sellers together in an open environment where the fair value of any vehicle can be determined. Technology enables that to take place in both real-world and virtual settings, but there are critical differences for buyers as they move from the physical auction to the exclusively online marketplace. The most obvious difference is the buyer’s inability to touch, feel and inspect vehicles before, and while, they run in the lanes. Dealers have sharpened their skills to do this quickly and, with experience, built confidence that they could correctly value each vehicle and avoid making mistakes. In the live/online setting of a Simulcast sale, dealers still have the opportunity to inspect vehicles prior to a sale and, of course, can watch the action in the lanes to see other bidders reacting to each vehicle. But, in a totally virtual auction, vehicle inventories might be in marshalling yards, rental locations or auctions around the country. With the massive online inventory of Manheim’s OVE.com, for example, it is impossible for a dealer to personally inspect all of the listings in which they are interested. Thus the buyer has to
An important part of The Wholesale Institute training is teaching dealers how to use condition reports to help them compare vehicle attributes and make reasoned judgments regarding values.

Manheim Consulting has noted an increase in the number of dealer vehicles with ECRs (electronic condition reports), due mainly to the desire to sell on OVE.com and other online channels. Dealers have always bought other dealer vehicles in the lanes because they can touch and see them. But matching the online sales success of commercial consignors requires the same amount of disclosure to prospective bidders.

The complete NAAA electronic condition standard can be viewed at www.naaa.com. Visitors can also view wholesale certification and arbitration standards on the site.

rely on the sellers’ representations. When that seller is an auto company remarketing off-lease vehicles to a family of franchised dealers, there is already an element of trust. But, in an open setting where any seller and buyer can do business, the auction’s role changes.

The online marketplace increases the auction’s responsibility to provide buyers the confidence to bid on vehicles they haven’t seen and are often listed by sellers with whom they have no local auction experience. It is a role that Manheim recognized years ago when there was little consistency in how major consignors conducted inspections or in the standards behind certifications.

Manheim Pioneered Electronic Condition Reports and AutoGrade

Manheim pioneered electronic condition reports with InSight ECR, which could be made available to dealers searching pre-sale inventory and online listings. Detailed condition reports gave dealers accurate information about the content of each vehicle as well as its condition. Manheim’s decimal grade system, AutoGrade, made searching through the ever-growing inventory on Manheim.com easier. By grading in tenths of a point, dealers could focus on the vehicles that met their needs without having to read dozens of condition reports.

These innovations demonstrated that accurate information increased buyer confidence, made comparison-shopping easier, and reduced arbitration rates. Sellers who provided the ECR and AutoGrade typically saw higher online sales percentages, and prices were higher because bids were based on confidence in the condition of the vehicle and, thus, entailed less of a risk premium.

Most commercial consignors have embraced ECRs and grades, and for some, 100% of their vehicles provide bidders with this information. As a result, these are some of the most successful sellers in Manheim online channels.

NAAA Adopts Standards for Inspections, Arbitration and Certification

In 2010, the National Auto Auction Association adopted a series of new and comprehensive inspection, arbitration and certification standards that all member auctions accepted on January 1, 2011. This action by NAAA, as discussed in the interview with President Jay Cadigan on page 25, comes after discussion and input from auctions, dealers and consignors. Their goal was to develop rules that addressed the obstacles to dealer participation in online auctions and to improve the overall experience for buyers and sellers. Dealers, whether bidding in the lanes anywhere in the
country, in Simulcast sales or in Manheim’s online marketplace, can now rely on the consistency and comparability of condition reports and in the standards behind Platinum, Gold, and Silver certifications. Manheim and other auctions also encourage buyers to have a post-sale inspection performed. This fast and inexpensive process quickly alerts the buyer to any undisclosed problems before incurring transportation and other costs.

Managing Multiple Remarketing Channels to Maximize Results

Physical auctions are often characterized by their size and location as well as by the vehicles and buyers they attract. For example, Florida auctions remarket more risk rental cars than do those in the Midwest. Franchised dealers dominate the lanes where closed factory sales are held. And auctions with just a few lanes rely on a strong local presence and dealer consignments. Although auctions vary in what they sell, they aim to have policies, processes, and services that are consistent with the brand irrespective of the operating location or channel.

Buyers and sellers of used vehicles expect the same level of service in whatever channel or type of sales event they do business. That means paperwork and titling, handling of vehicles, payments, pre- and post-sale services, account management, and everything else touched by auctions has to be done efficiently. Managing transactions across multiple channels and consignors for in-person buyers, remote buyers in live sales and pure online buyers has increased the administrative complexity for Manheim, which operates auction channels in all three dimensions. Increasingly, Manheim and others operating live and online channels have to view the business from the customer’s perspective with respect to ease of use. There may be different places and ways to remarket vehicles, but the host auction’s philosophy and conduct must be consistent everywhere.

Inventory Search Capability Keeps Pace with an Evolving Marketplace

Sellers often list their inventory on OVE.com and then take advantage of live weekly sales to immediately relist unsold units. This ensures continuous exposure to buyers, reduces days-to-sale and achieves market prices. From a buyer’s perspective, the massive, and always changing, online inventory increases the chances of finding the exact model sought, but it can increase search time.

Manheim.com currently receives almost 900,000 visits per week, and more than 100,000 vehicles are searchable each day via Manheim.com’s PowerSearch. Manheim also hosts around 40 Online Event Sales each week.
Search functionality received a high priority in the launch of Manheim.com, the portal through which the company’s customers conduct business. Being able to quickly parse the many variables that define a vehicle has improved the dealer’s efficiency. As more dealers embrace multi-channel sourcing, they will want even more refinement of search features. In Manheim’s case that will involve presenting all vehicles that meet a dealer’s criteria in any channel.

Although many buyers still make distinctions between buying live and buying online, those differences are blurring. As auctions build confidence in the online experience, and more dealers successfully buy vehicles online, online inventory listings and search capability will have to reflect the “merging” of in-lane and online channels.

**Improving Auction Processes to Improve Customer Performance**

While many developments in the industry have revolved around technology, other significant developments at the physical auction focus on some of the most basic functions of the entire process. For example, auctions are examining how they can reduce days-to-sale, which will lower customers’ (and potentially the auctions’) costs, while getting new inventory listed faster.

A vehicle’s progression from entry to running in the lanes can best be thought of as a series of batched processes. Manheim’s goal is to reduce the time to sell by as much as a third by rethinking and redesigning many of the functions performed at the auctions. Because consignors can immediately place their vehicles in an online channel rather than having to wait until their next scheduled live event, this not only lowers holding costs but also generates cash faster.

In the summer of 2010, Manheim rolled out new kiosk customer registration software that speeded the registration process for dealers so they could conduct their business faster. By simply swiping their AuctionAccess card, dealers can register for multiple sales, search inventory, receive messages, print buyer and seller reports, and obtain gate passes.

**Data Analysis Continues to Improve Remarketing Outcomes**

The application of data analytics to improve remarketing outcomes is less than 10 years old. But in that short time, understanding the factors that determine results has changed the notion of remarketing from merely a physical process of disposing of vehicles to a strategic function that impacts financial returns.

In 2010, Manheim Consulting participated in more than 75 in-person meetings with commercial consignors, more than 300 analyses for dealer customers, more than 40 in-person dealer meetings and more than two dozen assignments for one major commercial consignor alone.
Manheim Consulting is a one-of-a-kind resource for the entire remarketing community, including many dealers who want to measure their wholesaling performance. The team of analysts, statisticians and operations-research experts conducts detailed studies by accessing the vast Manheim database or conducting one-of-a-kind research to answer specific client questions.

As clients have recognized the value of this work, they have refined their requests, often asking detailed questions that directly impact not only remarketing strategies but all aspects of remarketing and fleet management. Because the database includes not only details about every transaction whether a vehicle is sold or not, there is information about outcomes, pricing, and other factors, like condition, that could impact remarketing decisions and, ultimately, results, for buyers and sellers.

The subjects of analytical studies are almost limitless, but a few stand out because of the importance they have to shaping remarketing strategies. These include:

- Understanding the impact on price of color and specific features and how that might vary by season and region;
- Setting optimum reserve prices and any impact of channel selection on prices;
- Timing remarketing decisions to seasonal and regional wholesale price trends; and
- Maximizing the financial return from individual reconditioning services.

Data analytics now has an important role in remarketing strategies. Sellers have the tools to develop strategies that result in more predictable outcomes and understand the trade-offs between their alternatives.
Streamlining Vehicle Entry at Operating Locations

Taking costs and time out of remarketing often means re-engineering real-world processes. That can involve changes in staffing and retraining as well as investing in facilities. Manheim is aiming to reduce the days-to-sale once a vehicle is consigned to an operating location. The work began in 2010 with an overhaul of vehicle entry processes.

**Objective:** In 2010, Manheim undertook an investigation to determine whether, and by how much, it could reduce the time it took to process vehicles at the point of entry into an operating location. Consignors want to reduce the number of days-to-sale because extra days equal higher holding costs and an increased depreciation risk. Technology has played a role in reducing time-to-sale once the vehicle has been processed and made ready for sale, whether that means listing it on OVE.com or another online channel or selling the vehicle directly to a dealer or employee in a closed online environment. Some of those changes took place outside of the auction environment and were enabled by software and online channels that connected sellers with buyers.

Manheim decided to research the potential for time-saving within the complex vehicle-entry process, a task that requires extensive paperwork, handling, and manpower. Only then could the magnitude of the opportunity be understood and actions be taken throughout the company to make the improvements.

At each auction location, thousands of vehicles arrive throughout the day on an unpredictable timetable. Managing the inbound flow of vehicles including check-in, inspections, and preparation of condition reports could take an average of four days given the bottlenecks associated with batched deliveries from individual consignors. After the vehicle entry process, consignors would be given condition reports so that they could determine the reconditioning needs for each vehicle and move on to the next steps of placing the vehicles in online and physical auctions.

The challenge for Manheim was to determine whether those four days could be compressed by changing processes and retraining personnel to deliver consistent and superior results across all locations. The goal was to complete the entry process in as close to one day as possible.

**Process Changes:** In order to achieve that target, Manheim lengthened the hours of operation to accommodate late-arriving loads. At the same time, Manheim extended the days and hours during which staff were available to conduct inspections, write condition reports, and submit the information to sellers. Bottlenecks often occurred because consignors had their own inspection procedures and designated inspectors at each auction. Manheim worked with major consignors to agree on inspection requirements. As a result, instead of being batch-processed, vehicles now flowed from one step to the next as if on a production line. In most instances, inspectors worked more predictable hours instead of working overtime on the days before a sale. The areas where they worked were modified with lights, canopies, and other changes to better enable evening inspections.

Over an eight-week study period, an average of 1.5 days were shaved off the entry process at the seven test locations. The vehicles were ready for the next stage earlier, whether that be posting on OVE.com or reconditioning.

**Conclusion:** Manheim’s test proved so successful that the new vehicle entry process was scheduled for rollout across all operating locations. The test proved that manageable changes in hours, responsibilities, and facilities would benefit all consignors. Manheim estimated that each day off saves the consignor at least $10, and as much as $20, per vehicle.

The streamlined vehicle entry process benefits dealers with a few vehicles to sell as much as it does the major consignors. Faster processing can encourage dealers to obtain condition reports and grades for their vehicles so that they can take advantage of all Manheim online and in-lane auction channels.
Specialty and Heavy Truck & Equipment Remarketing Depends on Auctions

Specialty units and commercial vehicles, including heavy equipment, benefit from remarketing in a manner similar to passenger vehicles. Auctions enable sellers to realize a fair value for their inventory and provide liquidity, which underpins retail financing. That, in turn, gives current owners greater opportunities to trade up and provides retailers the additional revenue that comes from selling used products alongside new models.

Specialty auctions remarket a broad range of products, including boats, recreational vehicles, motorcycles, and PowerSports equipment (which includes ATVs, dirt bikes, snowmobiles, and personal watercraft). Heavy Truck & Equipment auctions remarket medium- and heavy-duty trucks, trailers, and heavy equipment from the agricultural and construction industries as well as other related products. Many Heavy Truck & Equipment auctions are open to the non-dealer, in addition to the traditional auction buyer.

Most of these products are remarketed in auction locations that use the same technology that supports whole car auctions. Manheim hosts Specialty sales at 17 branded locations around the country and hosts Heavy Truck & Equipment sales at 13 branded locations.

Each branded location provides sellers with the products, services, and support they are accustomed to receiving at a traditional auction, including inspections, photos, condition reports, and reconditioning. In addition, there are some products and services that are unique to Specialty and Heavy Truck & Equipment auctions. For example, compression checks for boat engines, certified inspections for RVs, and video condition reports enable Specialty and Heavy Truck & Equipment bidders to view specific details.

**Specialty Auctions Remarket Repossessed and Dealer-Owned Products** Financial institutions currently provide about 70% of the units sold at Specialty auctions (with most of those units being repossessions). Dealer-consigned units account for the remaining inventory. The ability to convert repossessed products into cash supports retail lending for Specialty units. NADA publishes values derived from auction results on each category three times per year. Although NADA valuations are not available in real time, as they are with passenger vehicles, buyers and sellers rely on them since financial institutions often use NADA to set lending terms on used Specialty units. In 2010, Specialty volume in auctions increased at a slower rate than in 2008 and 2009. However, demand for used products...

*Manheim complements the data that NADA supplies on the Specialty market with the release of monthly market reports that detail sale prices for each type of Specialty product. Buyers can use NADA values and the Manheim Specialty Market Report to gain a true understanding of product values in the wholesale marketplace.*
was strong, and prices for most Specialty categories increased due to low inventory of new and used units at retailers.

**Manheim Initiated Boat Auctions in 2005**  Manheim began offering boat auctions in 2005 and is the leader in remarketing all types of boats as a result of the company’s efforts to educate boat dealers on the value and function of the auction system. Repossessions owned by financial institutions account for the bulk of the inventory at auctions, with dealers providing the remaining units.

Manheim has played a role in transforming the boat industry by giving dealers the confidence to take trades knowing that they can immediately remarket them at a very low cost compared to any other wholesale alternatives. Auction participation from boat dealers, as both buyers and sellers, increased again in 2010, even though auction supply remained flat. More boat dealers are now selling used as well as new product. In 2010, buyers bid up the prices at Manheim auctions; boats sold for an average of 108% of NADA.

**Manheim Is the Top Remarketer of Recreational Vehicles**  Sales and sales percentages in the RV market fell slightly in 2010. The conversion rate for RVs was about 62% in 2010, down from 67% in 2009. The lower conversion rate was attributed to the large supply of government towable units.

RV bidders are strongly committed to personally inspecting the units they want to buy due to the high value and unique features of each unit. To locate units, RV buyers typically travel to multiple Specialty-branded auctions in search of specific inventory.

Manheim has developed new programs to support these RV buyers and to make it easier to locate inventory. Platinum Sales were created to offer high-dollar RVs in a separate sale at three branded locations. This makes it easier for buyers of these high-dollar units to find the concentration of inventory they desire. RV Certified Inspections were also launched in late 2010 to make it easier for buyers to purchase RV units online with confidence.

**Manheim Gains Market Share in Motorcycles/PowerSports**  Prices of Motorcycles/PowerSports vehicles increased in 2010 as supply declined. Repossessions leveled off after peaking in 2009.

While Manheim has always sold Motorcycle and PowerSports units, the creation of the Specialty business in 2005 led to strong growth for both of these product categories. Over the past five years, Manheim has gained market share from competitors and is now the second-largest auction company in this space.

By guaranteeing titles/sale documents for the buyer and funds for the seller, Manheim provides a seamless experience to both parties. In addition, services like...
motorcycle certification, reconditioning, mechanical repair, and transportation can be handled by Specialty-branded locations.

The demand for Motorcycles/PowerSports vehicles at auctions will continue to increase as more dealers sell used units alongside new models.

**A Depressed Construction Industry Hurt Heavy Truck & Equipment Sales**

Transaction volume in Heavy Truck & Equipment sales declined in 2010 with the supply and demand for commercial trucks and heavy equipment remaining depressed as fleets continued to run their existing vehicles longer and buyers remained cautious.

Medium-duty trucks are closely tied to construction, so this category saw little recovery in 2010 due to high unemployment and a struggling real estate market. In the second half of 2010, heavy-duty trucks saw signs of improvement as orders for new units began to rise. Demand for used heavy equipment remained depressed because of weak residential and commercial construction.

Buyers of Heavy Trucks & Equipment have been very selective about the units they bid on. The supply of low-mileage trucks is low, so prices for these units are high. Buyers expanded their geographic search range to find the products they need.

**Online Sales Account for High Percentage of Transactions**

Online bidders represent a growing percentage of all transactions as bidders in the U.S. and abroad continue to increase and appreciate the ease of bidding in an online environment. The online (Manheim Simulcast and OVE.com) sales rate is 40% for Specialty auctions and 23% for Heavy Trucks & Equipment, 33% combined, compared to just over 20% for whole cars. Units that are not sold in a live auction are listed on OVE.com, where sellers can improve the odds of success by providing the type of information that boosts buyer confidence.

In addition, Manheim has encouraged Specialty and Heavy Truck & Equipment sellers to provide video condition reports that allow bidders to see the interior and exterior features and condition of the unit and to hear how the engine sounds.

Besides listing units on OVE.com, Manheim’s Specialty and Heavy Truck & Equipment auctions host “Thursday Thunder” Online Event Sales for boats, RVs, motorcycles, and PowerSports, as well as medium- and heavy-duty trucks, and heavy equipment.

**Resources:**

[www.manheimspecialtyauctions.com](http://www.manheimspecialtyauctions.com)  
[www.manheimheavytruckauctions.com](http://www.manheimheavytruckauctions.com)  
[www.manheimspecialtyauctions.com/blog](http://www.manheimspecialtyauctions.com/blog)  
[www.manheimheavytruckauctions.com/blog](http://www.manheimheavytruckauctions.com/blog)
How are dealers and NAAA members responding to the reduced supply of used vehicles?

As we’ve seen before when times have been tough, dealers turn to partners they can trust, and that includes NAAA auctions. As a result, attendance at auctions remains strong, both in the lanes and online. With volumes down, dealers are trying to source vehicles wherever they can, and they’re using a variety of online tools. We’re seeing a big impact online all across the industry, with Internet buyers purchasing cars from different sites to source inventory. Today’s dealers have a 24/7 opportunity to buy, and NAAA members are meeting that demand. So, even when auction inventory drops, dealers are able to efficiently find the vehicles they need.

What are the critical issues confronting NAAA now and in the immediate future?

One of the biggest issues facing NAAA now is continuing to build dealers’ confidence in the vehicles they’re buying online. As someone who has been a part of NAAA for more than 35 years, I’ve always been proud of the association’s willingness to tackle important issues that benefit the industry. The specific issues and challenges have changed as the industry and technology have evolved, but often the core issue has come down to building confidence in the vehicles offered in the lanes and, more recently, online. Implementing industrywide standards for condition reports, arbitration, certification, and other processes, is increasingly important, especially to online customers. With standards in place, we can assure dealers that they are going to get the same information from an auction in Washington or Maine or anywhere in between.

Can you tell us why standards are important, especially for online transactions, and how NAAA is addressing these needs?

It is critical for online buyers to know exactly what they’re getting, and standards help us get to that point. For example, with the introduction of our NAAA National Certification Standards Program on Jan. 1, 2011, we have for the first time a consistent system for wholesale vehicle certification, regardless of consignor or auction. In the past, individual auctions and consignors could have their own standards for condition reports and certification. That was confusing to the buyer. The more confidence we can give dealers that they are getting a good product, the more likely they are to buy online.

The Certification Standards Program was developed through the hard work of our NAAA standards committee, which is composed of, and receives input from, a cross-section of the industry, including national consignors, dealers, and NAAA members. As someone who was an auction customer before ever working for an auction, I understand how critical it is to get outside perspectives on important issues.

You have also stated that you want to increase the participation of younger people in NAAA. Why is that important to the organization?

We must get more young people involved in the National Auto Auction Association, as they are our next generation of leaders. There will be significant challenges ahead, and we need the input and energy of younger members. They have grown up in a different world and have built successful businesses in an industry that will continue to evolve faster than it has in the past. Their insights into how best to use technology will improve the auction experience for buyers, sellers, and the auctions.

Do you see the line between physical auctions and online channels blurring?

Brick-and-mortar auctions still account for the majority of auction activity, but each month we see more online activity. As we develop standards, you’ll see the line between physical and online auctions blur, and dealers will be empowered to find inventory at the time, and in the format, that best suits their needs.

What do you see as NAAA’s role as a source of information on the wholesale marketplace?

We believe that NAAA provides value to our members and to our industry by providing information about the wholesale vehicle marketplace. Communicating with our members, the media, industry analysts, and other decision-makers is all a part of that process. Auctions convene buyers and sellers in a vibrant marketplace, and when participants understand the trends that are shaping the industry, they can make better decisions, be more profitable, and feel more satisfied with the auction experience.

Jay Cadigan was named president of NAAA in 2010. Jay is a remarketing industry veteran currently serving as Manheim’s Vice President—Account Operations, Industry Relations and Senior Market Vice President. His first contact with auctions came in 1974 when he drove cars to the Skyline Auction for the dealer for whom he worked. He spent 14 years in remarketing on behalf of leasing companies before joining Golden Gate Auto Auction in 1989 as assistant general manager. From 1993 to 2004 he was general manager of Manheim’s Skyline Auto Auction (now Manheim NY Metro Skyline).
Dealers

Franchised and independent dealers recorded higher profits in 2010 as increased revenue, adherence to cost disciplines enacted during the recession, and better inventory management continued the turnaround that began in the second half of 2009. Dealers did not, however, see profit margins return to pre-recession levels. As such, holding down expenses remained as important to the bottom line as selling more vehicles.

Credit availability improved throughout the year; but buyers in 2010 had lower credit profiles, so dealers often faced more complex finance negotiations. But, with delinquency rates declining in all credit tiers and recovery rates rising for all types of repossessions, dealers increasingly found lenders willing to buy paper that they would have passed on a year ago. As evidence, subprime’s share of both new and used vehicle financing increased in 2010. It was subprime’s first share increase since 2007.

**Franchised and Independent Dealer Count Stabilizes**

After a record number of dealership closures in the previous two years, the franchised dealership count held relatively stable in 2010. General Motors reinstated some of the previously terminated dealerships, and Kia and Hyundai added new points. Ford eliminated the Mercury brand, but since virtually all of these dealers were dualed with Lincoln, that did not affect the total dealership count.

The number of independent dealerships fell by only a few hundred. In some cases, these dealers had trouble getting floorplan financing or were located in regionally weak markets. Dealers in the once red-hot vehicle markets of California, Florida, Arizona, and Nevada reported sub-par performance due to high unemployment and home foreclosures.

Although there are no precise figures on the categories of independent used vehicle dealers, anecdotal evidence suggests there was an increase in the number of Buy-Here, Pay-Here dealerships in 2010. With a growing number of people rated as deep-subprime, dealer-provided credit accounted for about 13% of all used vehicle financing in 2010.

**Transaction Prices Rise as Automakers Maintain Inventory Discipline**

The Detroit 3 emerged from the recession with lower fixed costs and fewer hourly workers. So, rather than overloading dealers with inventory and then boosting retail incentives to keep factories running, manufacturers are now able to match production with demand. That resulted in an
increase in new vehicle transaction prices. Shoppers reentering the market after four or five years were often shocked by how much monthly lease or loan payments had risen.

Although credit availability improved, shoppers were not able to find as many incentive-supported deals as in the past. This limited the rebound in new vehicle sales and shifted some shoppers to less expensive used vehicles.

New Car & Light-Duty Truck Sales
Seasonally Adjusted Annual Rate – 3-Month Moving Average
Millions of Units

Franchised Dealers Increase Their Commitment to Used Vehicles

Although margins on both new vehicle and used vehicle sales have eroded over the past decade, used vehicle margins have remained consistently (and considerably) higher. Many dealers blamed the Internet for reduced margins, because it made price discovery easier for retail customers. As a result, dealers were more apt to negotiate from “invoice up,” rather than “sticker down.” Additionally, manufacturers have reduced the potential gross in a new vehicle sale by raising the dealer's wholesale price faster than the suggested retail price. Thus, franchised dealers today are more dependent on the profit from the sale and service of used vehicles than ever. To grow their used vehicle operations, many franchised dealers have broadened their used vehicle offerings to include more makes, models, ages, and price points. Instead of wholesaling what used to be unwanted trades, these dealers are now retailing the units.

Some dealers have broadened the inventory at their existing used vehicle lots, while others have established separate stand alone used vehicle operations. AutoNation, for one, is retailing out of unwanted trades at what it calls Vehicle Value Centers. With a price-point of about $7,000, these vehicles attract a different set of buyers than do nearly new or CPO units.
In total, franchised dealers used vehicle sales were unchanged in 2010, according to CNW Marketing Research. But CPO sales rose nearly 7%, and same-store used vehicle retail sales for the seven publicly traded dealership groups rose by double-digit rates in each of the first three quarters of 2010.

Franchised dealers who established separate used vehicle stores quickly realized that their trade-ins had to be supplemented with units acquired at auctions. So, today, franchised dealers are more often competing against independent dealers for older, lower-priced vehicles at auction.

**Dealers Post Largest Used Unit Sales Gain Since 1993**

![Graph showing annual percent change in used unit sales by dealers from 1990 to 2010.](image)

**Financial Institutions Still Limiting Floorplan Financing to Some Dealers**

Lenders have always taken a more cautious attitude regarding floorplan lending on used vehicles, especially to small independent dealers where terms are linked to their financial condition. Because used vehicles depreciate over time, lenders often require curtailments after 60 or 90 days to ensure that the collateral value of inventory backing their credit line has not substantially eroded.

During the recession, lenders cut back floorplan lines to independent dealers. Even now, floorplan lines are still tighter than they were prior to the recession, with some financial institutions reluctant to take on new lending while closely monitoring dealer profitability. Independent dealers have traditionally had a greater reliance on local and regional banks, many of which failed due to losses in real estate.

Independent dealers posted an 11% increase in retail sales in 2010. The gains came off of a low base but also reflected the strong demand for the lower price-point units sold by these stores, and the fact that non-prime lenders, including Capital One, Santander, and AmeriCredit, were increasing loan origins.
Buy-Here, Pay-Here Sales Rebound Faster Than Overall Market

Although credit loosened in the subprime segment in 2010, for customers with FICO scores below 570, Buy-Here, Pay-Here dealerships were often the only places to buy vehicles.

While there are no precise statistics on the size of the BHPH market, the anecdotal evidence suggests that this segment grew in 2010 and accounted for about 13% of all used vehicle financing.

The challenge for BHPH dealers, especially those new to the business, was not finding customers, but what it has always been – managing risk by correctly pricing loan terms and then monitoring collections and repossessions to minimize losses.

BHPH always generates high credit losses. That is simply the nature of a business dedicated to customers who cannot qualify for conventional loans. The ability to evaluate customers against criteria other than credit scores, which are often not predictive of losses in the BHPH segment, is the most important component of success.

Newcomers to the business often underestimate the importance of the mechanical condition of the vehicles they sell. BHPH customers will often default on a vehicle that suffers a major mechanical breakdown, unless the dealer picks up the cost of the repair. So, seasoned dealers carefully select inventory by relying on inspection reports, and their experience with specific makes and models. Vehicles are reconditioned at the auction, or by the dealer, to improve the odds that they will operate without a breakdown during the life of the contract.

BHPH dealers acquire much of their inventory from auctions, where they buy small and midsize sedans and affordable light-duty trucks. End-of-service commercial fleet vehicles also work for BHPH dealers carrying higher value inventory. These vehicles have the advantage of having been well-maintained, and are relatively young in age, despite their high mileage. In 2010, commercial fleet units as well as used vehicles from other sources were more expensive and had more wear. As a result, reconditioning expenses for BHPH dealers increased, reducing gross margins.

Availability of Wholesale Financing Improves in 2010

Auction-owned floorplan finance companies are critical lenders to independent dealers. During the credit crisis, these wholesale lenders faced significant reductions in their access to funds. As a result, they in turn had to reduce or cut floorplan lines to dealers. As the credit market improved, Manheim Automotive Financial Services (MAFS) and others once again became fully engaged in floorplan lending.

MAFS serves more than 10,000 dealers. About one-quarter of MAFS’ portfolio is vehicles valued at $5,000 or less.
With average credit lines at pre-recession levels, MAFS plays a critical role in providing liquidity to dealers and to the wholesale used vehicle market. In 2010, MAFS realigned its auction staff in anticipation of higher levels of lending to used vehicle dealers and to ensure that it delivers the highest level of individualized service to its customers at the auction locations.

**Independent and Franchised Dealers Embrace Inventory Management**

Software-based management systems are a necessity for most independent and franchised dealers. These systems not only monitor a dealer’s sales and profitability, but also analyze local market trends that can be incorporated into stocking recommendations. Many systems also review local market prices for a dealer’s inventory to ensure that the dealer’s pricing on each vehicle is competitive.

Only a few years ago, inventory management systems were viewed as an interesting, but not essential, tool. But the recession and the increased sophistication of these systems changed dealer attitudes. Inventory management systems have enabled dealers to stock fewer vehicles and turn them faster, which is critical to maximizing used vehicle profits.

**Online Wholesale Inventory Adds Retail Sales**

Both franchised and independent dealers are supplementing their lot inventory by presenting online inventory, such as OVE.com’s Retail View, to shoppers who are looking for specific models and features. Retail View allows the dealer to present alternatives to the units in stock that might better meet the customer’s needs. These sales often generate high margins because the vehicles are delivered to the customer within a few days of being purchased at the auction.

**Finding the Right Vehicles at the Right Price Was Tougher in 2010**

It was harder for dealers to find specific inventory in 2010, and it was impossible to find that inventory at the prices remembered from two or three years ago. On average, dealers paid more for their vehicles and bought older vehicles that needed more reconditioning. Although retail prices also increased, it was tougher to maintain margins.

**Dealers Use Online Channels to Remarket More of Their Inventory**

Dealers are adjusting their wholesaling methods to today’s market. Access to real-time wholesale prices through Manheim Market Report helps dealers price their unwanted vehicles to wholesalers or other dealers. Some dealership groups control vehicle transfers between their stores with online platforms. OVE.com, for example, has established proprietary channels through which large chains can redistribute inventory among all of their stores at current market values. Those vehicles not
bought internally are immediately listed on OVE.com. These changes, enabled by technology and facilitated through Manheim’s 24/7 online channel, have improved results in an area often overlooked within the dealership.

**Manheim Consulting Provides Dealers with Analytical Services**

Prior to 2010, Manheim Consulting primarily served the needs of commercial consignors. But last year, large and mid-sized retail groups, both franchised and independent, began receiving periodic reports from Manheim Consulting that enabled them to evaluate whether and how they should change their remarketing practices.

**Dealers Have More Vehicles to Remarket in 2010**

The purchase of a new or used vehicle often generates a trade-in that the dealer has to retail or wholesale. Even though dealers retailed out of more of their trade-ins in 2010, higher retail sales of new and used vehicles generated more dealer consignments at auction in 2010.

In addition to remarketing them through auctions, dealers sell unwanted vehicles to wholesalers and local dealers. When dealers have only a few vehicles to sell, they often favor immediate cash from a wholesaler, even if remarketing through an auction would have brought a higher price.

Dealers provided 3.8 million, or 45%, of the vehicles sold at auction in 2010. This marked the first increase in dealer consignment sales since 2005.

**Dealer Vehicles Bring Higher Prices in Auctions**

The average dealer vehicle remarketed through auctions in 2010 sold for more than $9,000, compared to just under $8,000 in 2009 – and that’s despite having higher mileage. Although dealers represent the largest supply of vehicles in auctions, they skew toward older, less expensive models than do commercial consignors.

**Average Auction Price – Dealer-Consigned Vehicles**

* 2010 is a Manheim Consulting estimate based on both internal and industry sources.


Source: Manheim Consulting
The Wholesale Institute participates in dealer training activities sponsored by the NADA, NIADA and NABD. TWI training focuses on:

Dealer Listings on OVE.com Grow
Dealer vehicles still account for a small percentage of online inventory; but as a group, dealer listings are growing rapidly off of a small base. Many of the dealer vehicles have been consigned by dealers to independent auctions that use the OVE.com platform or from large wholesalers. Wholesalers often have the expertise to generate data on each vehicle, set reserve prices, and monitor bidding more effectively than does a dealer selling a few units at a time.

Although the number is smaller than for other categories of sellers, the dealer consignment volumes are growing as large dealer groups develop online remarketing expertise and participate in OVE.com special sales events. In 2010, Manheim’s online channel hosted numerous special sales for dealer groups, including Asbury Automotive, Lithia, Group 1, Hendrick, and others.

As more dealer vehicles are listed on OVE.com and other online auctions, independent dealers, who have lagged franchised dealers in buying online, will get more comfortable buying used vehicles online. In 2010, OVE.com recorded a huge increase in the number of first-time bidders, which is clear evidence of that trend.

Once again, in 2010, the number of dealers participating in The Wholesale Institute (TWI) training sessions in person and online set a record. In 2009, TWI added training on selling vehicles online so that dealers understood what it would take for them to successfully sell online.

The first TWI session was held in 2007. By the end of 2010, TWI had hosted more than 175 workshops and trained more than 5,000 dealers.

In 2011, The Wholesale Institute announced a series of quarterly webinars that will cover strategic topics including “How to Maximize Your Selling Opportunities” and “Leveraging Social Media at Your Dealership.”
Dealers and Social Media

Today, more than 75% of new and used vehicle buyers research vehicles on the Internet before deciding what to buy. Increasingly, these consumers go online not only to decide what – and where – to buy, but also to get feedback from both friends and strangers prior to making a purchasing decision. Studies show that consumers trust the opinions and advice of friends and other consumers more than company advertising.

Lead generation has consistently shifted from conventional media to dealer, automaker, and third party websites, such as AutoTrader.com. Dealer websites are no longer static displays that provide little more than a photo of the store, hours of operation, and contact information. Instead, they provide up-to-date inventory listings and price quotes, and most dealers have become savvy users of email reminders to keep in touch with current customers.

The most recent phase of the digital revolution, broadly termed “social media,” is changing how dealers engage with customers and sell cars. Conventional media can build name recognition for a dealership, but it cannot speak to each individual. Social media, however, allows dealers to develop a one-on-one relationship with each customer, regardless of geographic boundaries.

Ford Fiesta Movement Alerts Automakers to the Power of Social Media

Prior to the launch of the Ford Fiesta, it would be safe to say that the Detroit 3’s small models did not live up to the competition. In the absence of social media, even with a fully competitive small car, convincing shoppers that they should consider a Ford would have taken years.

Ford’s Fiesta Movement proved the potential of social media to educate consumers by turning an American small car into a star with a large order-bank at launch and by generating more than 100,000 “handraisers,” 97% of whom had never owned a Ford product. Ford seized the opportunity to target millennials (Generation Y), an untapped audience that was not accustomed to using Ford products, but who were highly active in the social media space. The campaign was overwhelmingly successful – generating millions of views on YouTube, Facebook, and Twitter, and eliciting positive comments about Ford from users who had now been converted to customers. During a speech in 2010, Ford CEO Alan Mulally stated “Social media is the future.” The company’s dedication to social media is legendary, and every Ford model is on Twitter, Facebook, Flickr, and YouTube, in addition to blogs.

Dealers Engage With Customers Through Social Media

It has only been in the last year or so that some franchised and independent dealers have begun to appreciate the importance of social media to their businesses. Networking sites are growing exponentially and most companies now have one or more Facebook pages where they can interact with visitors.

But dealers are generally local businesses and many wondered how they could benefit from the investment needed to support a social media effort. Early adopters have used Facebook, Twitter and Flickr to stay engaged with existing customers and reach out to new ones. Today, the typical dealer uses these sites to offer promotions on services or to update visitors on fresh new and used vehicle inventory. Monitoring services provide dealers with up-to-date ratings on their performance and flag reviews that are both favorable and unfavorable so that the dealer can respond to both. Proactive dealers benefit from quickly and efficiently resolving customer service issues that they might not have known about had they not been watching online conversations and reviews.
Social Media Offers New Ways to Connect to Customers and Sell Vehicles

The goal of advertising, including an investment in social media, is to boost sales. As a source of online inventory, Manheim has watched the success of one independent dealer who expanded his business by engaging with visitors on his Facebook page and using Twitter. This dealer learns what shoppers want, finds the vehicles on OVE.com, completes the transaction, and delivers vehicles to customers. By engaging buyers directly and fulfilling their needs by accessing wholesale inventory online, this dealer has expanded his geographic reach without increasing his investment in physical inventory. His satisfied customers have become his references to other potential customers, which is truly a measure of success.

This example might seem extreme, but it happens more frequently than many think. Over time, dealers’ creativity will change not only how they market themselves, but also how they engage with their customers. Research indicates that dealers are increasingly adopting social media for business purposes, and this trend is only going to grow. Tens of thousands of smart dealers will take this business in new directions that nobody can predict today.

Manheim Expands Its Use of Social Media

Manheim is also active in social media. Many operating locations have Facebook and Twitter pages to better engage with customers and enhance marketing efforts. Twitter is particularly useful for getting the word to dealers that vehicles they are interested in are nearing the block, or that fresh inventory that meets their needs was just listed on OVE.com. Within Manheim, The Wholesale Institute started a blog to develop a community of dealers interested in buying and selling vehicles online. Manheim Specialty and Heavy Truck & Equipment Auction managers are also blogging to keep customers updated about trends in their business.

One year ago, Manheim established a Social Media Council (consisting of a cross-functional team of employees) and tasked them with defining and implementing a social media strategy for the organization. The Council provides Manheim locations with guidelines on the proper usage of social media and specific suggestions on posting, content, and look and feel. Locations have also appointed a Social Media Ambassador to stay abreast of trends and to act as a liaison to the Council. Additionally, Manheim actively monitors conversations online to understand the pulse of the dealer community and to know what topics and issues are currently interesting their customer base. These are early efforts using social media, and, like every dealer, Manheim will figure out what works. But even with the limited experience so far, Manheim is convinced that social media will play a much bigger role not only in corporate marketing, but also in enabling a more engaging, interactive, and relevant communication with customers.
Manheim Consulting Analysts Review Dealer Remarketing Practices

Manheim Consulting has focused on helping Manheim’s largest dealer customers, often franchised operations and wholesalers, optimize their remarketing strategies. In 2010, Manheim’s Major Dealer Team provided dealers with more than 35 separate studies conducted by Manheim Consulting. This effort has helped dealers improve their results.

In some instances the results confirmed that no changes were needed in a dealer’s remarketing process. But in most cases, the data demonstrated that a dealer could improve financial returns on vehicles sold via non-Manheim channels or to other dealers and wholesalers who, in turn, remarkeked them through Manheim auctions. The biggest improvements were often linked to consigning vehicles to other auctions or increasing reliance on auctions over direct sales to other dealers or wholesalers.

**Analysis and Conclusion:** Manheim Consulting undertook a review of a mid-Atlantic dealer group to determine whether the group was getting the best prices for the vehicles they wholesaled. The analysis compared the dealer’s sale price on vehicles sold to wholesalers and through other non-Manheim channels against the value of comparable vehicles sold at local Manheim auctions. The comparison revealed that many wholesaled units would have brought a substantially higher return in the auction lanes.

Dealers often sell some of their unwanted trades to other dealers and wholesalers. This makes sense for dealers with just a few units to sell because they can get cash quickly. However, Manheim Consulting analysts were able to show this dealer and others that they often forfeited considerable cash even after deducting fees and associated expenses.

Manheim Consulting has continued to provide account performance analyses for key dealers, with the result being more dealer vehicles remarkeked through Manheim auctions and higher returns on those vehicles. The credibility of the analyses is reflected in the ongoing assessments provided and to letting the data speak for itself.
You are assuming the chairmanship of NADA at a time when franchised dealers face both large challenges and opportunities. What do you see as NADA’s role in addressing those challenges?

During the last three years, I have personally experienced the importance of grassroots activism in educating legislators about the economic importance of the auto retail business and the unintended consequences of proposed legislative actions. We were actively engaged in the discussions surrounding the GM and Chrysler bankruptcies and the impact those might have on local communities, on dealership terminations, and on arbitration policies, and most recently, with the Consumer Finance and Protection Act. The regulations under this act will be announced in 2011, and they could adversely affect our business even though franchised dealers were exempted. I have been very impressed with NADA’s resources and our ability to respond quickly to issues that impact our members.

You chaired the NADA Task Force on credit during the height of the financial crisis. Where would you say things now stand on credit for dealers?

The sharp contraction in credit to dealers and consumers contributed to thousands of dealerships closing over the last three years. Fortunately, in 2010, the franchised dealer population was stable.

Floorplan credit is still tight, and dealers are controlling new and especially used vehicle inventories. No one can afford to allow used vehicles to age more than 40 days. One of the overlooked problems currently is the reluctance of lenders to write mortgages on dealership properties. Lenders view our stores as single-purpose facilities, so financing these assets is difficult and very expensive.

What is your assessment of credit availability for your customers?

We can’t overlook the fact that, in many states, the precipitous drop in real estate values has collapsed household wealth and crippled consumer confidence. But lenders are realizing that auto loans have lower risk than other consumer lending, especially mortgages. As a result, dealers are seeing more credit flowing to nonprime vehicle buyers.

Franchised dealers have complained about the poor profits in their new car departments. To what do you attribute the compression in new car margins?

There are two factors: The first is the increased cost of being a franchised dealer, and the second is price transparency and competition. Internet price disclosure has definitely contributed to thinner margins. But franchised dealers have also confronted rising costs, some of which relate to manufacturer requirements for image investments in our stores as well as other expense shifting. Often this has been a motivation for dealers to sell their businesses if they question their ability to get a return on that investment.

In addition, dealers may be spending less money on traditional media, but that has been more than offset by spending on Internet advertising, social media, expensive services, and tools that help us manage customer relationships and inventory.

In order to be profitable, franchised dealers have focused more attention on service, parts, and used cars. These changes in the franchised dealer’s business model are permanent.

How have franchised dealers responded to the shortage of used vehicles and the need to control inventory?

Besides obvious changes like stocking fewer vehicles and turning inventory faster, dealers have had to develop new ways of searching for and buying used vehicles. Not everyone is comfortable buying vehicles online. But online auctions are a great resource for dealers because they provide access to more vehicles and allow dealers to find the exact units they need. So, in my stores, and among franchised dealers in general, we are buying from more physical auctions and staying connected to online inventory. Dealers are getting accustomed to being able to search for, and bid on, used vehicles at any time.
How have independent dealers adjusted their businesses in the last three years?

Independent dealers have faced unprecedented challenges in the last three years. Even though the overall economy is improving, dealers are still struggling with limits on inventory and consumer credit. But dealers are resilient and have adjusted by stocking fewer vehicles and focusing on the types of vehicles that turn quickly. Solid inventory management underpins the successful dealer. Many dealers have retrained employees to ensure that everyone is contributing to the success of the business. Employee productivity has improved as staffs have been reduced to the current level of sales. In the process, we have learned to run our stores more efficiently. We have also seen a shift to the Buy-Here, Pay-Here model by dealers who have access to capital.

In our store, we have cut in half both our staff and our inventory. We have also expanded the number of lenders we rely on to finance our customers. We are now sourcing some inventory online, buying vehicles that will sell quickly, and generating more sales based on specific customer orders.

How are independent dealers coping with the shortage of used vehicles?

Independent dealers are confronting two challenges: higher prices and fewer pre-owned cars in the marketplace. Independent dealers are spending more time and effort to find the right inventory. Everyone is going to more auctions, both online and in person, as well as tapping local wholesale sources. Some dealers have been very successful in buying inventory directly from private owners.

Three or four years ago, dealers were able to find plenty of vehicles under 70,000 miles and three or four years old at acceptable prices. But independent dealers have modified the age and condition guidelines to reflect what their customers can afford. As a result, dealers are doing more reconditioning to get vehicles frontline ready.

You are quoted as saying “We will never go back to business as it was in the past.” Can you explain what you meant by that?

Our business model has changed. New car dealers are getting more into the pre-owned business, so we have to meet that challenge. Franchised dealers offer service departments, larger facilities, and access to newer inventory.

NIADA members know that they have to continue to improve their business skills and adapt to this new competition. NIADA can teach dealers to run more efficient operations, but the business of selling cars is still about knowing your market and your customers and being responsive to their needs.

Independent dealers need access to information to enable them to make quick decisions. NIADA helps independent dealers stay abreast of the national and local economic, regulatory, and business issues facing our industry and each dealer.

How is NIADA monitoring the potential rules under the new Consumer Financial Protection Bureau?

We have encouraged members to stay connected with one another by attending local and national meetings and by contacting their legislators on issues that could impact our business, in particular Buy-Here, Pay-Here. The NIADA website includes a blog where dealers can find information on local and national issues and answers to their specific questions.

You are a strong advocate for dealer education. What resources does NIADA provide dealers?

NIADA is serious about education, and we recognize that it is one of the strongest things we have to offer our members. Knowledge is power, and what you don’t know can hurt you. Our three-day Certified Master Dealer Program gives dealers the critical skills and information they need to meet the challenges of operating successfully in a challenging environment.

NIADA and its industry partners provide dealers with online and in-person training that covers the full range of inventory and dealership management topics. For example, the NIADA/Manheim partnership teaches dealers how to buy and sell vehicles online through The Wholesale Institute training on NIADA TV.
The profitability of the rental industry turned around as a result of operating-cost discipline, access to lower-cost vehicle financing, and most importantly, a significant drop in fleet depreciation expense due to strong used vehicle prices.

Passenger enplanements, a key indicator of airport rental business, still lagged pre-recession levels, but showed modest gains over 2009. Through September, enplanements increased 1.5% over 2009 as business and leisure travel showed five consecutive months of small increases for the first time in more than two years.

Leisure travel was hurt during the normally strong holiday period because of inbound flight disruptions from Europe as well as winter storms throughout the United States. Nevertheless, some travel restrictions have been removed as corporate profits rebound. Reflective of this, some airlines plan to add capacity during 2011.

The local market represents about $10 billion in revenues and like daily rental, local rentals contracted during the recession and have been slow to recover. Local rental demand is closely tied to auto repairs and body shop service, which has suffered since the recession. In the first half of 2010, several large recalls brought millions of vehicles back to dealers for repairs, which boosted demand for loaner cars. However, consumers continued to defer maintenance on their vehicles and put off body repairs, so their need for loaner vehicles declined. More drivers carried auto insurance without the collision coverage that would have provided a free loaner vehicle while the vehicle was being repaired.
Rental Companies Purchased 1.4 Million New Vehicles in 2010

Rental companies purchased 1.4 million vehicles in 2010, up from 1.1 million units in 2009 when fleets were downsized. Average risk vehicle service life rose to approximately 40,000 miles, up from about 25,000 in 2007. Rental companies replaced aging fleets and operated larger fleets during peak travel periods. In addition, fleet managers opted to lower the average age of units in service by selling off many vehicles with 30,000 or fewer miles.

New Vehicle Sales Into Rental and Rental Fleet Size

New Vehicle Sales into Rental by Model Year

In Millions

Source: Bobit Business Media and Manheim Consulting estimates

Risk Vehicles Account for Record Share of Purchases

Domestic auto companies have been lowering sales under guaranteed depreciation programs for more than four years by reducing allocations and raising prices. In 2010, less than 30% of the rental industry’s purchases were program vehicles and many of them were Asian brands rather than the Detroit 3.

New Vehicle Sales into Rental by Model Year

In Millions

Source: Bobit Business Media and Manheim Consulting estimates
The shift away from program vehicles, and the bankruptcies of General Motors and Chrysler in 2009, reduced the Detroit 3’s penetration of the rental market to only 60% in 2009. Restoration of full production at GM and Chrysler boosted the Detroit 3 share to 69%, which is still below the more than 80% share they commanded in the past.

Chrysler increased its sales to the rental industry by 83%, as it came off very low volume in 2009. Asian brands accounted for most of the remaining sales, with Hyundai/Kia at 158,000 for the year, Toyota at 130,000, and Nissan at 111,000.

Managing a multibrand fleet has posed new challenges for the rental industry compared to the past when negotiations were typically conducted with one primary supplier of program vehicles. Rental car executives now negotiate with several auto companies to obtain the quantity and mix of vehicles needed and then continuously monitor operating expenses, and especially residual values, for each of the makes and models in their fleets.

### Fleet Management Focuses on Depreciation

Rental companies have become proactive in managing every aspect of vehicle expense, including loss of revenue and loss of vehicle value. Vehicles are presented to customers with current damage noted on an inspection report. Any other damage caused during the rental results in extra charges that reflect the repair cost and potential loss of value when resold. Taking a vehicle out of service to make repairs results in a loss of revenues, and some repairs, such as body work, lower the future resale value of the vehicle.

Fleet managers are also fine-tuning their vehicle acquisition strategies to minimize monthly depreciation over the life of each unit in service. In the past, decisions were often made more on the basis of acquisition cost rather than on resale value.

Today, however, fleet managers are closely analyzing the features that bring the highest resale value. By analyzing auction data, Manheim Consulting has helped rental companies identify those exterior colors and features that increase the value of the vehicles and avoid those options that bring little or no return. In general, rental risk vehicles today are better equipped with more power features, higher-quality interiors, and better sound and climate control systems because paying more for the vehicle often results in less depreciation than what is seen on lesser-contented models.

Fleet managers are also closely monitoring vehicle usage patterns by vehicle type and location to ensure that all vehicles reach mileage limits over specific service lives. Certain models, such as minivans, tend to accumulate more miles per rental than other types of vehicles. Rental companies, though not able to charge for miles driven, are more closely studying the true cost of certain rentals.
Program Vehicle Supply Remains Near Historic Lows

To the chagrin of franchised dealers, the supply of program vehicles in the wholesale market improved only modestly in 2010, after very steep declines over the past three years. The volume of program vehicles entering the wholesale market in 2010 rose less than 5%, after declines of 26% in 2009 and 34% in 2008.

Program vehicles, although often money-losers for auto companies, are highly desired by franchised dealers as inventory for used vehicle certification programs. Program units provide dealers with low-mileage, current model or one-year-old vehicles that are popular with consumers because of the attractive price-point and remaining factory warranty.

Since auto companies are responsible for remarketing these vehicles, their dealers are the primary customers for these units.

By contrast, rental companies are responsible for remarketing risk units. They are motivated, not by obligations to a franchise network, but rather by how and where to achieve the best prices. When buying at auction, franchised dealers have to compete with independent dealers for these vehicles in open sales.

In 2010, the average Detroit 3 program vehicle was remarketed with 17,100 miles and sold for an average price of $18,500. This compares with the 2009 levels of 17,100 miles and $15,500. Part of the price jump in 2010 simply reflects some significant shifts in the makes and models being sold.

Generally speaking, program vehicles were somewhat more expensive, higher-end models, which, along with the strong used vehicle prices, boosted the average auction price in 2010.

Average Auction Price – Rental Repurchase Units – Detroit 3

![Average Auction Price Chart](chart.png)

Source: Manheim Consulting
Auto Companies Show Interest in Program Vehicles Again

Auto companies have realized that there is a downside to their emphasis on risk over program vehicles. Program vehicles are kept within the automaker’s family and enable the franchised dealer to offer quality vehicles with a factory warranty at a much lower price than a new car. Risk vehicles, however, are available to all dealers, so a large number are retailed through independent used car dealers.

The previous losses on program vehicles were attributable to dumping excess capacity into the rental industry while destroying residual values with high cash incentives on new models. Now that the domestic auto industry has reduced excess capacity and lowered break-even points with more flexible labor costs, it is possible to offer program vehicles with less financial risk to the auto company. There is some evidence that 2011 model year pricing to rental companies has narrowed the economics so that program units will likely pick up share over the next 12 months. It will, however, be a slight shift, and the share accounted for by program units will remain well below those of earlier years.

Risk Vehicles Remarketed with Lower Mileage

The number of used vehicles remarketed by rental companies rose in 2010 as the industry stabilized service life and average fleet size. Strong used vehicle prices, a modest decline in average miles, and a slightly upgraded mix of risk vehicles resulted in higher auction prices in 2010. The average auction price for a rental risk unit was $12,200, up from $11,700 in 2009. In 2010, the average mileage on risk units sold at auction was 37,200 versus 38,400 in 2009.
Manheim Consulting analysts have undertaken numerous studies on behalf of rental clients to help them improve their vehicle acquisition strategies and remarketing performance. This industry has embraced data-based decisions to help manage fleet costs.

The overall shortage of quality late-model used vehicles in all remarketing channels has enabled rental car companies to optimize remarketing through a combination of direct sales as well as online and in-lane auction sales. The goals are to reduce days-to-sale and to lower remarketing costs, while achieving the highest possible price.

The diversified fleets offered by rental car companies attract a broad range of franchised and independent dealers. Thus, one remarketing strategy is to maximize the exposure their inventory receives. Risk vehicles are sometimes sold alongside program cars at auction or directly to local dealers or wholesalers. Even though rental companies remarket a sizable portion of their fleets directly to local dealers, they rely on auctions to remarket nearly half of their vehicles.
To meet the strong year-end demand for used vehicles, OVE.com featured special sales from major consignors, including Hertz. Approximately 1,500 rental vehicles were offered for sale in special daily and weekend events during which time Hertz waived the buy fee for successful bidders.

The Avis Early Access program was rolled out to 14 major rental markets in September 2010. Every vehicle sold through this program reduces seller costs while providing dealers with access to the freshest inventory.

**Manheim Online Special Sales Are Effective in Remarketing Risk Units**

Rental companies typically have large fleets in Florida, California, and major metropolitan areas. Online channels such as OVE.com enable the rental companies to sell to dealers anywhere in the country and avoid potential local market saturation. Dealers are increasingly willing to transport a vehicle bought online as long as they have confidence in the seller and the vehicle condition.

Every major rental company has conducted special sales events through OVE.com. Vehicles waiting to run in physical auction sales are posted online so that the inventory is continuously available for purchase in a Manheim channel. Rental companies now include actual vehicle photos instead of stock pictures and are recognizing the value of inspections and electronic condition reports in overcoming bidder hesitation about buying online.

Some rental companies, notably Hertz and Avis, began offering vehicles for sale through branded online channels within OVE.com to enable them to remarket their vehicles as they are about to come out of service. Hertz Direct and Avis Early Access reduce the time-to-sale. Actual VINs are posted for each vehicle with photos and condition reports. This allows the rental company to sell the vehicles faster and avoid transportation and holding costs.
New Lease Originations Surge in 2010

From a cyclical low point of 1.1 million in 2009, new vehicle lease origination rose to more than 1.7 million in 2010 – an increase of more than 50%. Credit the rise in leasing to both the increased ability and the increased desire of lessors to grow their portfolios. The greater ability was a direct result of the improved credit market, (a credit market that in late 2008 and 2009 was so dysfunctional that it forced several lessors to stop writing new leases altogether). The greater desire to grow lease portfolios was prompted by higher used vehicle residuals – both a higher residual in the current market and a higher expectation for residuals at lease end. Higher residuals enable lessors to profitably offer customers lower monthly payments without resorting to excessive subvention.

New Vehicle Lease Penetration Rates

All auto lenders (and most lessors are also involved in straight retail financing) benefited from the greater availability of capital within the credit markets in 2010. Given that lessors assume a greater residual risk exposure than do retail lenders, access to funding is more closely tied to the credit standing of the lessor. As such, both GMAC and Chrysler Financial were forced to exit leasing in late 2008 and were not able to return until the third quarter of 2009.

Since captives (and manufacturer-sponsored affinity programs offered through banks) account for the bulk of leasing activity, the absence of GMAC and Chrysler Financial from the market meant that the lease penetration rate for vehicles from both GM and Chrysler fell to below 3% in 2009, according to J.D. Power and Associates. In 2010, the lease penetration rate for both those brands moved back closer to Ford’s level; but all three still had a lease penetration rate only in the single digits.
The biggest rise in lease penetration rates in 2010 occurred at Toyota and Honda dealerships. This was done as a strategic plan to offer customers an affordable monthly payment to meet the needs of a price-competitive market. Since these two brands have always enjoyed strong residuals and a high buy rate from grounding dealers for off-lease units, these manufacturers increased lease incentives in 2010 as an attractive alternative to higher upfront cash rebates, which immediately diminish current resale values.

Lease penetration rates for European luxury vehicles remained stable and high – both during, and coming out of, the recession. Leasing has always been a popular financing method for luxury vehicle buyers. Indeed, GMAC’s inability to provide a leasing alternative for almost a year was felt most acutely by Cadillac dealers, who otherwise enjoyed strong customer acceptance for their models. Likewise, as Hyundai has increasingly moved upscale in the market, the lease penetration rate for that brand has risen to double digits.

**Lessors Enjoy Strong End-of-Term Residuals**

After suffering large losses in the second half of 2008, lessors enjoyed much better pricing for end-of-term vehicles in 2009. That pricing strength continued in 2010. As evidence, consider the statistics graphed here for Ford Credit and Ally (formerly GMAC).

From a low point in the fourth quarter of 2008, end-of-term auction prices (on a constant-mix basis) have risen 30% for Ford Credit 24-month leases and 36% for 36-month leases.

**Ford Credit Auction Values at Constant Third-Quarter 2010 Mix**

Likewise, Ally’s end-of-term sale proceeds as a percent of the ALG residual used at contract inception dipped below 80% in the fourth quarter of 2008, but have since risen to 119%.
47 2011 Used Car Market Report

Off-Lease Volumes to Decline Significantly in 2011 and 2012

Although new lease originations picked up substantially in 2010, that trend will not forestall the large decline in off-lease volumes that the industry will experience in 2011 and 2012. The scheduled unit decline in off-lease volumes during this cycle will be slightly less than what actually occurred between 2002 and 2006, but the percentage fall-off will be greater. And, it is important to note, in the last cycle, lower lease originations were solely the result of lower lease penetration rates – total retail new-unit sales remained high. Thus, although off-lease volumes were down, the total supply of three- and four-year-old vehicles entering the market was little changed – they were just coming back as customer trade-ins as opposed to lessee turn-ins. In this cycle, there will be a substantial reduction in the potential supply of three- and four-year-old vehicles simply because overall new vehicle sales have been so low recently. From 2008 through 2010, a total of 35.3 million new vehicles were sold. Contrast that to the 51.4 million new vehicles that were sold from 2000 to 2002. As such, the future residual performance of recently written lease deals should perform favorably.

Early Terminations Expected to Rise

The estimates of future off-lease volumes are based on scheduled terminations and the historical pattern of early terminations. Thus, the actual decline in off-lease volumes in 2011 and 2012 would be moderated somewhat if early terminations are higher than normal. And, we fully expect they will be. Strong wholesale prices and conservative contract residuals will provide an opportunity for manufacturers and dealers to profitably pull customers out of their leases early and generate new sales. Unfortunately, this expected increase in early terminations will only modestly mitigate the overall decline in off-lease volumes.
**Remarketing of Off-Lease Units Continues to Shift to Online Channels**

All captive finance companies, as well as the major independents, have at least one Internet upstream platform that offers end-of-term vehicles to an ever-widening audience of mainly franchised dealers prior to sale at physical auction. The technology, platforms, and tools available for electronic remarketing of off-lease vehicles have improved significantly in recent years. Securities and Exchange Commission filings show that GMAC’s Internet sales of off-lease vehicles first exceeded sales at physical auctions in 2007. In 2009, the ratio was more than three Internet sales for every one sold at auction. Sales on Toyota Dealer Direct accounted for 52% of all Toyota off-lease sales in the fiscal year ending March 31, 2010. The overwhelming majority of these were sales to the grounding dealer at fixed prices.

**Distribution of GMAC Off-Lease Sales in U.S.**

<table>
<thead>
<tr>
<th>Percent</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical</td>
<td>42%</td>
<td>44%</td>
<td>39%</td>
<td>38%</td>
<td>19%</td>
</tr>
<tr>
<td>Internet</td>
<td>39%</td>
<td>38%</td>
<td>43%</td>
<td>47%</td>
<td>60%</td>
</tr>
<tr>
<td>Sale to grounding dealer</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>Other (including sale to lessee)</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
<td>5%</td>
<td>8%</td>
</tr>
</tbody>
</table>

*Source: GMAC SEC filings*

**Distribution of Toyota Financial Services Off-Lease Sales in U.S.**

<table>
<thead>
<tr>
<th>Percent</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toyota Dealer Direct</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To grounding dealer</td>
<td>31%</td>
<td>36%</td>
<td>41%</td>
<td>33%</td>
<td>42%</td>
</tr>
<tr>
<td>Not to grounding dealer</td>
<td>10%</td>
<td>13%</td>
<td>7%</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>At Auction</td>
<td>59%</td>
<td>51%</td>
<td>51%</td>
<td>59%</td>
<td>48%</td>
</tr>
</tbody>
</table>

*Source: Toyota Financial Services SEC filings*

We expect the relative demand for off-lease units to increase, while the potential supply declines. As such, the share of sales accounted for by upstream and midstream channels will continue to grow. Captive finance companies will continue to improve the processes that enable them to protect residual values, enhance brand image, and provide profit opportunities for their dealer networks.
Leasing Has a Solid Future

Leasing illustrates the various interactions that occur between the new and used vehicle markets better than does any other segment of the industry. Indeed, leasing, as a business model, is based on the assumption that residuals can be predicted with a measurable, and insurable, level of risk. Thus, true success in leasing is achieved only when lessors fully understand how current and future vehicle values are influenced by:

- Lease subvention and other incentive activity – both theirs and their competitors’;
- Vehicle-specific factors such as condition, options, mileage, and color;
- Industry trends and seasonal factors;
- Macroeconomic conditions; and
- The lessor’s ability to utilize Intelligent Remarketing, combined with professional end-of-term remarketing processes, to save both time and money.

From the consumer’s standpoint, leasing makes clear that total vehicle ownership cost is dominated by depreciation. After all, depreciation, plus the money factor, determines the monthly lease payment.

For all of these reasons, and more, we welcome the recent rise in leasing activity. When properly structured, leasing represents a winning proposition for customers, dealers, and lessors. There will invariably be instances, however, when lessors over-subvent their leases and offer them to customers with less than adequate credit quality. Indeed, there were instances of that in 2010. We suspect, though, that the losses inherent in those contracts will be mitigated by the used vehicle pricing support provided by the industry’s overall reduction in off-lease volumes in 2012.
From the abyss in the fourth quarter of 2008, the automotive retail finance market has made steady improvement over the past two years. In 2009, we described retail credit markets as being “better, but not normal.” By 2010, it would be fair to say that normalcy was achieved. Some might argue instead for the term “new normal,” but that would suggest that the lax underwriting standards that existed during the last peak in the lending cycle were somehow “normal.”

Regardless of terminology, it is clear that in 2010:

- Retail financing became more available to customers in all credit tiers,
- Funding costs for lenders fell to low levels, and
- Contract terms offered to customers improved and were commensurate with underlying risks.

This fair and efficient lending market in 2010 played a key role in the rise in new and used vehicle sales and the increase in dealer profitability.

**Auto ABS Market Functions Properly**

In the second half of 2008, as all credit markets froze up, new issuance in the asset-backed securitization (ABS) market for autos slipped to less than $3 billion in both the third and fourth quarters. In 2009 and 2010, auto ABS issuance rose to nearly $15 billion per quarter. Although that was far below an average issuance of more than $20 billion per quarter in 2005 and 2006, the need for ABS funding was also reduced. For one, new vehicle sales averaged only 11 million units annually between 2009 and 2010, whereas in 2005 and 2006 sales averaged 16.8 million new units a year. In addition, as banks stepped up auto lending and increased their share of retail financing, that meant more auto loans were deposit-based-funded as opposed to ABS-funded.

**Auto ABS Issuance**

In Billions

![Graph of Auto ABS Issuance](Source: Securities Industry and Financial Markets Association)
The most important change in auto ABS funding over the past two years from the finance companies’ perspective was the significant reduction in required credit enhancements. Given the better portfolio performance of recent vintage loans and high recovery rates, it is likely that total “all-in” funding costs for lenders will remain relatively low.

**Households Improve Their Balance Sheets**

Households entered the recession in an over-leveraged position, and with the collapse of the housing market, net worth quickly eroded. Since then, consumers have reduced debt levels. To be sure, much of that reduction was achieved by simply walking away from mortgages through foreclosure and bankruptcy or by lenders writing off uncollectible credit card balances. But households have also increased their savings rates, and they have certainly avoided taking on new credit card debt. After the passage of time, this will start to show up in an improved credit profile for the typical dealership customer. This is important because what many dealers considered tight lending in 2010 was, in fact, simply a reflection of the poorer credit profile of their customer base.

**Good F&I Practices Take on Added Importance at Dealerships**

Invariably, as auto lending goes through its cycles, it is the dealerships that recognize and respond to those changes that succeed, or in industry terms, those who know how to “work the deal.” If lenders are requiring more upfront money from the customers (and most lenders do today), Finance and Insurance (F&I) managers and salespeople must accept and meet that standard, rather than simply submitting applications that will be rejected. Likewise, in a tight credit environment, full and accurate documentation is critical. Dealerships with strong F&I departments are not disturbed by this since, for them, it is standard procedure.

And, of course, salespeople must properly set customer expectations. In 2010, for example, as the availability of credit improved in the lower tiers, many dealers complained that the customers hardest to finance were the near-prime ones, that is, those below prime, but above subprime. In reality, it was often just a case of failing to properly set expectations. Many of these customers previously had prime credit and were thus unprepared when more upfront money was requested or they did not get the finance rate they expected.
Repossessions

Delinquency, Default, and Repossession Rates Decline
Delinquency and default rates improved for virtually all lenders, and in all credit tiers, in 2010. Overall auto loan default rates were below their year-ago level during every month of 2010. And, in the second half of the year, the year-over-year reductions consistently exceeded 20%. With 2009 and 2010 vintage loans performing well in their early lives, and with a general economic improvement under way, default and delinquency rates will likely remain low for some time.

The improvement in loan performance plus a decline in, and an aging of, loans outstanding resulted in a significant reduction in repossession volumes in 2010. From a peak of more than 1.9 million in 2009, total repossessions declined 19% to 1.55 million in 2010.

Remarketing Repossessions: Days-to-Sale Remains a Key Focus
Even though wholesale used vehicle pricing was exceptionally strong in 2009 and 2010 (meaning that used vehicles were depreciating less rapidly), lenders remained focused on converting repossessed units into cash as quickly as possible. Generally speaking, the biggest stumbling blocks to a reduced number of days-to-sale are outside the control of auctions and lenders, as state and local laws dictate the process of both collateral collection and liquidation. And obtaining clear titles in a timely matter can sometimes be difficult. Nevertheless, in recent years, auctions and lenders have been successful in streamlining the processes they control and, thus, reducing overall days-to-sale.

Taking full advantage of upstream online selling opportunities can be hampered in the case of repossessions when the initial inspections and photos are done under poor conditions. But the online remarketing of repossessions works well for units located at auction lots, where professional inspections and photos are available.
The special challenges in remarketing repossessions – and the fact that some lenders have low volumes, a diverse mix of vehicles, and collateral that can be far away from their base of operations – have led some lenders to outsource their remarketing to third-party providers. This practice places the lender in a position similar to the relationship between fleet managers and their fleet management companies. In both instances, the one with direct financial exposure (lender or fleet manager) must ensure that the remarketing company provides adequate feedback showing that best practices are being employed to achieve maximum net returns.

**Removing the Stigma of Repossession Through Reconditioning**

Although some lenders consider the reconditioning of repossessed collateral as a case of “throwing good money after bad,” a larger number of lenders recognize that buyers are looking for some sort of assurance as to the vehicle’s basic reliability. As such, these lenders have found it worthwhile to segment their pools of vehicles, perform strategic reconditioning, and then “certify” vehicles to one or more levels. Over time, the three-pronged approach of strategic reconditioning, the “certification” of vehicles into special categories, and the marketing of what these certification levels mean has proved very effective at improving remarketing results.

**Repossession Recovery Rates Rise**

Recovery rates were exceptionally strong in 2010, whether the repossession was coming from a prime or subprime contract. An example from each segment is provided here. Ford Credit (generally prime contracts) reports both the frequency and severity of loss on retail contracts on a quarterly basis. Note that Ford’s severity of loss has fallen almost consistently since the fourth quarter of 2008, and is now 38% less than at the peak.

**Repossession Frequency and Severity – Ford Credit**

![Graph showing repossession frequency and severity](source: Ford Credit)
On the subprime side, AmeriCredit (now GM Financial Services) reports its overall recovery rate quarterly and often compares it to the Manheim Used Vehicle Value Index. Recovery rates are influenced by a host of factors other than the overall wholesale pricing environment – for example, the contract’s loan-to-value ratio, maturity, contract age at default, and vehicle-specific characteristics and condition. Nevertheless, as shown here, the Manheim Index does explain a lot of the variation in recovery rates over time.

**AmeriCredit Recovery Rates Correlate to Manheim Index**

![Graph showing the correlation between AmeriCredit recovery rates and the Manheim Index.](Source: AmeriCredit & Manheim Consulting)
Commercial Fleet Purchases Rise in 2010

The pressure on commercial fleet managers eased considerably in 2010 as the number of vehicles in service stabilized following rapid de-fleeting in 2009. Starting in late 2008, corporations took vehicles out of service earlier than planned as businesses reduced employment levels. In addition, fleet managers extended average vehicle service life beyond the normal range of 60,000 to 70,000 miles to as many as 85,000 miles. These actions lowered commercial fleet purchases to volumes not seen in more than a decade.

Corporate employment showed only slight gains in 2010, but fleet managers had to replace very high-mileage vehicles and, in some cases, also took advantage of strong used vehicle prices to refresh their fleets. As a result, commercial fleets bought 33% more vehicles in 2010 than in 2009. Although this marked a reversal following two years of lower purchases, sales to commercial fleets were still well below the annual demand of the past decade.

Government Fleet Downsizing Accelerated in 2010

Government fleet purchases fell 10% in 2010 to 217,000 as mounting budget deficits hit state and local governments. Historically, government fleet purchases have been less cyclical than have commercial fleet purchases. However, the length and depth of the recession (combined with the anemic recovery) forced city, state, and federal agencies to cut employment, reduce the number of employee-provided vehicles, and lengthen vehicle service life. In the second half of 2010, state and local employment continued to decline even as private-sector payrolls began to grow.

Reductions in fleet budgets occurred at all levels of government and in nearly every state, as tax collections fell far short of operating budgets. To keep vehicles in service longer, many municipalities have taken steps to reduce driving – even that of police patrols.

In Washington, D.C., Philadelphia, Portland, and most recently in New York City, city managers are implementing programs that allow workers to rent vehicles by the hour under special agreements with providers such as Zipcar. When the geographic overlap and availability of shared vehicles meets the needs of intermittent users, this model is promising. Other large cities are monitoring these tests to see how effective they are in reducing fleet costs while still providing vehicles as needed.

Three hundred employees of the New York City transportation department will share 25 Zipcar vehicles during business hours. This pilot program replaces 50 city-owned cars. Philadelphia began vehicle sharing in 2004 and estimates that it has saved more than $600,000 through car sharing.
A 2010 member survey by NAFA indicated a sharp increase in the number of corporate sustainability programs. The number of fleet managers complying with sustainability program goals soared from 64.5% of the total reporting to 76.6% in a 12-month period.

Source: NAFA FleetSolutions

The way employees drive makes a big difference in the volume of greenhouse gas emissions produced by company vehicles. There are five key areas fleet managers should focus on and communicate to their drivers.

• Avoid long idling.
• Remove unneeded items from the trunk.
• Keep tires properly inflated.
• Reduce driving speed.
• Avoid stop-and-go driving.

Source: Automotive Fleet, Market Trends, December 2010

Total Fleet Vehicle Purchases Increased 16% in 2010

Combined purchases by commercial and government fleets increased 16% in 2010 to 675,200. Commercial fleets accounted for 68% of the total, up from 59% in 2009.

Fleets Remain Focused on Buying the Right Vehicle for Each Use

Fleet managers typically purchase a variety of sedans and light-duty trucks each year to meet the needs of all users within a company. In an effort to meet corporate sustainability goals and fuel consumption targets, fleet managers have emphasized identifying the right vehicle for each driver and purpose.

As automakers have upgraded the features, performance, and quality of smaller cars and crossovers, drivers have been less resistant to giving up bigger vehicles. These newer models are often more acceptable from a company image standpoint as well. For example, the Chevrolet Cruze has more passenger space and refinement than were previously found in small cars. Fleets have generally shifted away from eight-cylinder to six- and four-cylinder engines.

Rising Gasoline Prices Escalate Efforts to Reduce Fuel Consumption

The price of gasoline escalated in the fourth quarter causing fleet managers to sharpen their focus on fuel economy in their second-cycle purchases. Fortunately, auto companies continue to make progress in increasing fuel efficiency across all models.

The pressure to reduce costs has also placed greater emphasis on using telematics to monitor driver behavior, prevent accidents, and decrease fuel consumption. Effective route planning using telematics can significantly reduce miles traveled.

Unleaded Gasoline Average Price per Gallon

Source: Oil Price Information Service
Some fleet managers are paying more attention to alternative fuels, including compressed natural gas (CNG) and biodiesel. General Motors has indicated that it will increase production of CNG-capable vans to meet rising interest from managers operating centrally fueled fleets.

**Electric Vehicles Will Appear in Select Commercial and Government Fleets**

Electric vehicles are entering the automotive mainstream. Although volumes are still small, commercial and government fleets are better suited to take advantage of electric vehicles than is the general public. For example, the infrastructure expense of recharging facilities can be spread over more units. And “range anxiety” is minimized because route planning, especially for delivery and service vehicles, can be tailored for electric vehicles. Electric vehicles also promise the potential of less maintenance because of fewer moving parts.

The biggest obstacle to electric vehicles remains their high prices and unpredictable residual values, especially as new models with improved technology are introduced over the next five years.

Currently government agencies and public utilities are offering various incentives to increase demand for electric vehicles. In addition, there are many major fleet operators (like General Electric and public utilities) that have a vested interest in electrification of the vehicle fleet. General Electric plans to buy 25,000 electric vehicles by 2015, both for its own corporate use and to lease to customers.

**Domestic Automakers Continue to Dominate Commercial and Government Fleets**

Domestic automakers dominate the commercial fleet segment. In 2010, as in years prior, General Motors, Ford, and Chrysler accounted for more than 90% of total sales. The Detroit 3 share of the government fleet market is even larger.

Domestic automakers not only have the wide variety of models that fleets need, but also allow fleets to special-order vehicles without features that are not essential and do not add to resale value. Ordering flexibility, coupled with larger dealer networks able to handle fleet deliveries across the country, is critical to fleet buyers.

**Ford Gains Share of Commercial Fleet Market**

By launching a series of new models popular with commercial fleet buyers, Ford has gained market share in this segment over the past four years. Ford also had the distinction of being the only domestic automaker to avoid bankruptcy, and some fleets are prohibited from doing business...
with companies in bankruptcy or undergoing restructuring. Other buyers were simply concerned about the increased residual risk that bankruptcy would bring. As a result, the Ford Focus, Fusion, Taurus, Explorer, Transit van and F-150, dominate their respective segments in the fleet market.

**General Motors and Chrysler Increase Sales to Commercial Fleets**

GM and Chrysler restored normal production by the second quarter of 2010. Initially both manufacturers concentrated on rebuilding dealer inventory, so supply to fleets during the important spring delivery season underperformed Ford’s.

Fleet managers were also reluctant to purchase Chrysler’s 2010 model year cars, knowing that the vehicles would be substantially revised and improved in the 2011 model year, so much of Chrysler’s volume was concentrated in minivans and crossovers.

General Motors’ fleet sales focused on crossovers, but fleet managers are showing interest in the new Chevrolet Cruze, which offers a combination of attractive price, a comfortable interior, and good performance.

**Longer Service Life Lowers Total Operating Costs**

Since vehicle downsizing is limited by purpose and driver comfort, the only remaining variable is length of service. Although many fleet managers accepted the need to run vehicles longer to meet budgets, they were apprehensive that higher repair costs and greater depreciation would erode the benefit of longer service life.

But, in 2010, real-world experience delivered two positive surprises. First, vehicles proved significantly more durable and required much less repair than was feared. Second, the shortage of used vehicles in the wholesale market meant strong pricing for high-mileage commercial fleet units in the auction lanes. As a result, fleet managers who ran their vehicles another 10,000 or 15,000 miles often lowered their overall fleet costs.

**Commercial Vehicle Registrations Rise as Large Fleets Update Equipment**

Total registrations for new Class 3 to Class 8 trucks increased 9.6% to more than 269,000 through September 2010. At the same time, registrations of used commercial vehicles rose 18.7% to more than 524,000 units, according to R.L. Polk. The increase in used commercial vehicle registrations reflects an improving economic climate and the desire of companies to upgrade their equipment to newer models. As large fleet owners bought new vehicles, smaller fleet companies and independent owner-operators have been able to find clean, used equipment in heavy truck auctions.
Auction Prices Rise Despite Higher Miles

In 2010, the average end-of-service midsize fleet car sold at auction had 68,000 miles, up from 66,000 in 2009 and 64,000 in 2008. Average mileage on vans and pickups coming out of fleet is generally well over 100,000 miles.

Mileage-adjusted auction prices for end-of-service fleet units were strong throughout 2010. Mileage- and seasonally-adjusted prices for end-of-service midsize fleet cars reached an all-time high in the first half of 2010, and came close to reaching that level again in the fourth quarter. A similar index for end-of-service pickup trucks reached an all-time high in the second half of 2010.

The level of employee purchases of company vehicles varied from one business to another in 2010; but in total, smaller staffs and economic uncertainty kept intra-company disposals of passenger vehicles below historic levels. Although many fleet managers view employee sales as the most economical and efficient means to remarket end-of-service units, auctions often proved to be the most profitable and efficient remarketing channel in 2010 as the strong pricing environment often meant that units were sold well above floor prices.
Fleet Vehicles Sell Well in Manheim Online Channels

Manheim’s OVE.com hosts frequent Online Event Sales on behalf of fleet management companies. In 2010, fleet management companies participated in approximately 1,000 Special Online Event Sales in addition to their normal in-lane Simulcast sales. Because these and other auction sales combine vehicles from many companies, there is enough product variety to attract both independent and franchised dealers.

Approximately 44% of commercial fleet vehicles were remarketed through NAAA-member auctions in 2010. Independent used vehicle dealers dominate the lanes where fleet vehicles are for sale. These lower-priced units are ideal for dealers concentrating in the subprime and Buy-Here, Pay-Here markets.

Although the online buyer has been somewhat slower to accept bidding on high-mileage units without physically inspecting them, commercial fleet vehicles give the buyer assurance that the units have been properly maintained over their service lives.

Government Fleets Have Success with Online Auctions

Government fleet vehicles are typically remarketed directly to the public in local sales and to both dealers and the public at auction locations. The single-largest seller is the General Services Administration (GSA), which manages fleets for many federal agencies. The GSA uses the services of major auction operators like Manheim. Vehicle information is generally posted on the auction and GSA websites weeks prior to the sale. GSA vehicles cover the full range of passenger cars and light trucks.

Since GSA has a solid and long-established reputation as a seller, online bidders buy a high percentage of them. In 2010, 52% of GSA vehicles sold by Manheim were bought online, up slightly from 51% in 2009.

Vehicles sold by local and state governments are often near the end of their useful lives, with more than 100,000 miles. Nevertheless, many dealers, taxi owners, and even some private individuals will bid on these low-priced units, especially out-of-service police vehicles, at auction.
How are corporate and public fleets adapting to slow growth, reduced employment, and tight budgets?
Most of us are concentrating on the basics, like reducing waste, abuse, and neglect. Improved technology like telematics makes it possible to monitor and correct these problems better than ever before.

“Working smarter, not harder” has become cliché; but when it comes to things like better route management, improved vehicle quality, and focusing on functionality in specification writing, it’s a reality. Tough financial times are bringing fleet and operational/sales managers closer.

Corporate fleet sizes stabilized in 2010. What’s been the trend in government fleets?
Among NAFA members, corporate fleets have largely stabilized (in keeping with employment trends and lease financing markets), but most government fleets are still in decline. Government fleets trailed corporate fleets both during the downturn and then in the recovery, owing to the cycle of tax revenue and budgets.

What has been the effect of longer fleet holding periods on fleet expenses?
Lengthening holding periods to the maximum extent allowed by lifecycle cost analysis was a strategy employed by all fleets. Many fleets found that the dependability of newer technology, coupled with strengthened resale markets, meant that longer holding periods did not adversely impact bottom-line costs.

When fleets use operating funds to acquire vehicles, they are better able to adjust procurement practices, including holding periods, to changes in the market, including resale values. Those that depend on capital purchases, including most government fleets, have less flexibility and may have to further extend holding periods beyond the optimum.

How do your members balance the impact of higher vehicle prices with length of service?
Acquisition cost is always a concern, but so too is resale value. If manufacturers remain disciplined about production and pricing, it raises resale values. Then it is largely a wash for fleets that turn over in a few years, as most corporate fleets do. The other major factor is reliability. And all major automakers selling into the fleet market are making improvements.

Higher acquisition costs are more problematic for fleets that hold vehicles until they are almost depreciated. This is more often the situation with government fleets. It is also a major reason why even a thorough lifecycle cost analysis drives these fleets to migrate to lower-priced vehicles.

Have high wholesale used vehicle prices given fleet managers more flexibility in timing remarketing decisions?
The decision is all about minimizing per period depreciation while maintaining a fleet that is operationally dependable and meets organizational image criteria. Higher resale prices decrease per period depreciation and allow fleets to sell vehicles earlier or later to achieve that result. This flexibility is greater with leased fleets, provided that the minimum holding period has been met and new replacement vehicles are readily available.

Has your membership embraced online remarketing?
This is a growing trend. Fleets are comfortable with whatever channel maximizes their return, including cash flow considerations. Most lease arrangements leave the remarketing decision completely up to fleet managers because they assume the risk. Of course, fleet management companies provide their customers with expert remarketing advice.

Your Fleet Focus newsletter carried an article about sustainability objectives in fleets. Are hybrids and electrics practical options?
Eventually, conventional fuel use will be expensive enough to make hybrids and electrics cost-effective alternatives. That is not now the case for most fleet applications in most of the world. For now, niche markets, demonstration fleets, and tax incentives are the reality until a technological or economic breakthrough changes the equation.

Chris Amos was elected president of NAFA in 2009. He was involved in fleet management prior to being elected commissioner of equipment services for the city of St. Louis, Mo., in 1995. In his role, he oversees a diverse fleet of more than 2,500 vehicles. Chris completed NAFA’s Certified Automotive Fleet Manager program in 1994. He is a recipient of both NAFA’s Distinguished Service Award and the inaugural Excellence in Education Award. Chris has written extensively on fleet management issues, taught at seminars and conferences, and served on federal rule-making committees.
The American Salvage Pool Association (ASPA) members operate nearly 400 locations throughout the United States, which meet standards that ensure the protection of vehicles held for sale and comply with all regulations.

Although passenger vehicles make up more than 90% of the unit volume at salvage auctions, damaged commercial vehicles and equipment, recreational vehicles, boats, motorcycles, and PowerSports equipment are a growing part of the salvage business.

The Salvage Auction Industry

The salvage auction industry provides many critical services to the buyers and sellers of salvage vehicles:

- Enabling a fair and open market in which the value of even the most heavily damaged vehicles can be determined;
- Managing the complex paperwork and titles associated with salvage vehicles;
- Facilitating state and federal government reporting requirements; and,
- Providing the specialized services required by the consignors of salvage vehicles, such as collection, storage, repair, and promotion of sales events.

Salvage auctions (also called salvage pool auctions) enable salvage vehicle owners to “pool” their inventories at locations where the combined volumes will attract a large number of bidders. Insurance companies supply nearly 80% of the vehicles, but financial institutions, rental car companies, commercial and government fleets, dealers, and charities also sell vehicles at salvage auctions.

The efficient salvage auction process enables sellers to recover value from even the most heavily damaged vehicle, which factors into the pricing of insurance products, the operating costs of fleets, and the revenues of charities. Recycled metals obtained from crushed vehicles are important in the production of consumer and industrial products, while recovered parts and components hold down repair costs.

New Vehicle Sales & Scrappage

<table>
<thead>
<tr>
<th>Year</th>
<th>New Vehicle Sales</th>
<th>Scrappage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: RL Polk, Automotive News and Manheim Consulting estimates
There are no precise statistics on the size or value of the total salvage market, but in the United States approximately 12 million vehicles fail to re-register each year. Not all of these vehicles are scrapped. Some are exported, and others remain with their owners who simply did not re-register them for one reason or another.

**Salvage Auctions Remarket Three Million Vehicles Each Year**

Millions of vehicles reach the end of their service lives each year. Many of these vehicles are sold directly to scrap dealers and local dismantlers. The majority of these vehicles cannot be driven or are so heavily damaged that they have little value beyond their extractable metals. The salvage auction industry remarkets about three million units each year. These are generally higher-value vehicles owned by auto insurers, fleets, and dealers.

In 2009, more than 700,000 vehicles were removed from the population under the cash-for-clunkers program. Many of these old, low-value units would have been remarketed through salvage auctions in future years as they reached the end of their useful life. Instead, these vehicles were typically sent directly to dismantlers who recovered some components and shredded the remainder of the vehicles, including the engine and drivetrain.

**Salvage Industry Provides Important Environmental Services**

In addition to its economic importance, the salvage industry provides an environmental benefit through the regulated and responsible handling and dismantling of damaged vehicles. In addition to valuable metals and recyclable plastics, vehicles contain toxic fluids and combustible materials that have to be handled properly to prevent soil and water contamination. Salvage auctions store and handle vehicles to prevent environmental contamination. The vehicle recycling industry adheres to strict standards and regulations in capturing vehicle fluids and Freon so that a properly scrapped and dismantled vehicle results in positive economic as well as environmental benefits.

**Insurance Consignments Decline at Salvage Auctions**

Insurance consignments at salvage auctions declined again in 2010. Natural disasters can create thousands of total loss vehicles over a short period, but the United States escaped widespread snow storms, floods, and hurricanes. Beginning in December and continuing through January, snow and ice storms blanketed much of the country. The vehicles totalled in those storms will be consigned to salvage auctions in 2011.

Since 2008, more customers have bought only the legally required minimum coverage and, when required to purchase collision coverage, they opted for high deductibles. As a result, more customers accepted cash payments following accidents to their vehicles rather than surrendering the vehicles to the insurance companies.
Historically, changes in miles driven have been a good indicator of the volume of salvage vehicles because they correlate with accident rates. Miles driven flattened out prior to the recession in response to rising fuel prices. In 2010, driving picked up, which suggests that the supply of salvage vehicles has likely bottomed out and should reverse in 2011.

The slow recovery continued to hold miles driven below pre-recession levels, which correlates with fewer crashes. At the same time, the number of crashes per million miles traveled has continued to decline over the last 20 years due to many factors, including improved vehicle systems, actions to reduce drunk driving, and graduated licensing for young drivers in many states.

**Salvage Auction Sales Top $6 Billion**

Although the salvage auction industry has seen a small reduction in volume over the last three years, the demand for salvage vehicles is strong. As a result, prices at salvage auctions have soared, mirroring price trends in whole car auctions. Salvage auctions generated more than $6 billion for consignors. Although the unit volumes at salvage auctions declined slightly in 2010, the prices paid increased significantly. One indicator of the value of salvage vehicles is the average price per ton paid for crushed auto bodies. The price more than doubled between March 2009 and March 2010, boosting the values of vehicles that were sold for scrap.

**Whole Crushed Auto Body Prices**

*Average Price per Gross Ton*

In 2010, average percentages soared above 25% of ACV (actual cash value), and that prompted some salvage auctions to guarantee values at that level to the naturally risk-averse auto insurers. Competition in the salvage industry heated up in 2010, and major auto insurers often negotiated a single fee for a bundled package of services, including the collection, administration, storage, and sale of the vehicle.
High values in whole car auctions due to shortages of affordable vehicles contributed to high prices for rebuildable units, especially those with clean titles. Even older, high-mileage models attracted bids from traditional used car dealers, who expected to retail out of the vehicles after restoration.

The Mitchell Industry Trends Report for the fourth quarter of 2010 illustrates both the increasing age of vehicles declared a total loss and also the rising actual cash values. The actual cash values for pickup trucks and sport utility vehicles doubled over the last 12 months, reflecting the huge appreciation in value of these vehicles in whole car auctions.

Heavily damaged vehicles bought by dismantlers also commanded high prices because of strong demand for parts and the shortage attributable to the shredding of more than 700,000 vehicles under the cash-for-clunkers program.

### Average Vehicle Age in Years of Vehicles Declared a Total Loss

<table>
<thead>
<tr>
<th>Vehicles</th>
<th>Q3 2008</th>
<th>Q3 2009</th>
<th>Q3 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convertible</td>
<td>10.24</td>
<td>10.77</td>
<td>10.86</td>
</tr>
<tr>
<td>Coupe</td>
<td>10.41</td>
<td>10.71</td>
<td>10.91</td>
</tr>
<tr>
<td>Hatchback</td>
<td>9.97</td>
<td>9.83</td>
<td>9.56</td>
</tr>
<tr>
<td>Sedan</td>
<td>9.48</td>
<td>9.69</td>
<td>9.87</td>
</tr>
<tr>
<td>Wagon</td>
<td>8.75</td>
<td>8.59</td>
<td>8.63</td>
</tr>
<tr>
<td>Other Passenger</td>
<td>11.10</td>
<td>11.40</td>
<td>11.50</td>
</tr>
<tr>
<td>Pickup</td>
<td>10.01</td>
<td>10.51</td>
<td>11.03</td>
</tr>
<tr>
<td>Van</td>
<td>9.83</td>
<td>10.00</td>
<td>10.34</td>
</tr>
<tr>
<td>SUV</td>
<td>8.38</td>
<td>8.80</td>
<td>9.21</td>
</tr>
<tr>
<td>Other Pickup/Van/SUV</td>
<td>16.58</td>
<td>15.79</td>
<td>17.00</td>
</tr>
</tbody>
</table>


### Average Vehicle Actual Cash Value

<table>
<thead>
<tr>
<th>Vehicles</th>
<th>Q3 2008</th>
<th>Q3 2009</th>
<th>Q3 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convertible</td>
<td>$10,613.47</td>
<td>$9,055.25</td>
<td>$9,217.26</td>
</tr>
<tr>
<td>Coupe</td>
<td>$5,991.94</td>
<td>$5,852.99</td>
<td>$6,278.97</td>
</tr>
<tr>
<td>Hatchback</td>
<td>$5,740.75</td>
<td>$5,952.06</td>
<td>$6,522.02</td>
</tr>
<tr>
<td>Sedan</td>
<td>$6,092.28</td>
<td>$5,979.02</td>
<td>$6,440.42</td>
</tr>
<tr>
<td>Wagon</td>
<td>$7,207.46</td>
<td>$6,964.85</td>
<td>$7,466.61</td>
</tr>
<tr>
<td>Other Passenger</td>
<td>$14,189.14</td>
<td>$12,707.58</td>
<td>$13,374.95</td>
</tr>
<tr>
<td>Pickup</td>
<td>$9,143.95</td>
<td>$8,216.10</td>
<td>$8,916.06</td>
</tr>
<tr>
<td>Van</td>
<td>$5,577.81</td>
<td>$4,981.87</td>
<td>$5,532.67</td>
</tr>
<tr>
<td>SUV</td>
<td>$9,252.42</td>
<td>$8,125.52</td>
<td>$9,078.79</td>
</tr>
<tr>
<td>Other Pickup/Van/SUV</td>
<td>$5,185.69</td>
<td>$11,036.84</td>
<td>$22,789.32</td>
</tr>
</tbody>
</table>

Auto Insurers Account for 80% of Salvage Auction Volume

Auto insurers account for an estimated 80% of salvage auction consignments. Auto insurers typically use auction companies with large regional, or more likely national, footprints. Insurers expect their salvage auction partners to pick up a vehicle within 24 hours of assignment, store it for up to 90 days, manage all of the paperwork, attract foreign and domestic bidders, and provide other services.

Vehicles are declared a total loss when the cost of repair exceeds a specific percentage of the current market value of a comparable replacement. Claims are settled based upon the actual cash value of the vehicle less any deductible.

Total Loss Frequency Rises

The auto insurance industry flagged 13.8% of all vehicles for which an appraisal was written as a total loss according to CCC. This amounted to about 2.5 million vehicles and excludes those vehicles that were designated total losses under auto insurers Direct Repair Programs (DRP) for which no appraisals were written.

The total loss frequency has increased by 1.3 percentage points since 2006 due to the aging of the vehicle population and rising repair costs. Although the total loss percentage remained high in 2010, a lower accident rate, and the shift in behavior of insured clients following an accident or theft, resulted in fewer vehicles remarked through salvage auctions.

Although standards vary by state, auto insurers’ “parts only” titles are usually assigned to vehicles with estimated repair costs of 85% or more of actual cash value. A few states, notably New Jersey and New York, mandate “parts only” titles when repair costs equal actual cash value, but most insurers opt for a more conservative standard anyway.

Percent of Appraisals Flagged as Total Loss by Method of Inspection

![Graph showing percent of appraisals flagged as total loss by method of inspection.]

Source: CCC Information Services Inc.
Many Claimants Accept Cash and Keep Damaged Vehicles

In 2010, insurance companies continued to see a high percentage of customers accept a cash settlement instead of surrendering the vehicle. In this case, the insurance company reduces the actual cash value of the vehicle by the amount of the deductible and the salvage value of the vehicle. These drivers rationalize that replacing their vehicles would be more expensive than making enough repairs to keep the vehicles on the road.

Fleets Accounted for About 16% of Salvage Auction Consignments

Rental and commercial fleets account for about 16% of salvage auction volume, but a very high percentage of the vehicles that are less than three years old. Rental companies operate multi-brand fleets that often include some luxury makes, whereas commercial fleets operate all classes of light-duty trucks as well as passenger vehicles. As a result of the variety and high value of the vehicles, fleet vehicles always attract active bidding at salvage auctions.

Rental companies and commercial fleets typically consign vehicles to salvage auctions when repair costs exceed 55% to 65% of the actual cash value. In setting these standards, fleets take into account not only the cost of repair, but also the loss of revenue in the case of rental cars or the cost of substitute vehicles in the case of commercial fleet units. Fleets also take into consideration the loss of residual value when repaired units are remarketed.

Rental companies and fleet management companies centralize decision-making when remarketing damaged vehicles. These companies, like auto insurers, prefer to remarket their salvage vehicles through auctions that provide them with national coverage, consistent services, and access to international as well as local buyers.

In 2010, the number of fleet vehicles consigned to salvage auctions was relatively stable compared to 2009. A higher number of units in service and rental activity resulted in more accidents. But strong residual values on late-model used cars and trucks tilted the scale toward repair over disposal for many damaged commercial and rental vehicles in 2010.

Charities, Financial Institutions, and Dealers Supply Vehicles to Salvage Auctions

Salvage auctions remarket damaged vehicles on behalf of charities, financial institutions, and dealers, who consign them to auctions. Some auctions also buy damaged vehicles directly from the public and later run these units through their sales.
Before 2005, charities represented an important source of supply in salvage auctions. However, the IRS then limited the amount that owners could deduct on their vehicles to $500 or the actual value obtained for the vehicle. Although charities still advertise for vehicle donations, the numbers are down as drivers hold on to their aging vehicles.

Financial institutions have a limited number of damaged, repossessed and stolen vehicles that attract buyers’ attention in salvage auctions. Like fleet vehicles, these are often younger and higher-value models, including luxury makes and light trucks.

Dealers will often accommodate a customer by taking a low-value vehicle in trade. The dealer then has to get rid of the vehicle, often by selling it to a local dismantler, or sometimes consigning to a salvage auction. As more dealers have come to salvage auctions looking for vehicles to buy, they have also recognized the opportunity to sell their old and damaged vehicles that would not have been worth remarketing in a whole car auction.

**Foreign Buyers Are Served by Companies Dedicated to Their Unique Needs**

Manheim’s ExportTrader.com is an important resource for foreign buyers. Through ExportTrader.com, foreign buyers can search online inventory listings, place bids on the vehicle, and arrange for payment and shipment of the vehicle to its final destination. Brokers handle all paperwork related to purchase, payments, and export documentation on behalf of the buyer.

International buyers typically search for specific makes and models that can be rebuilt and retailed. Major export destinations for salvage vehicles include the Middle East, Africa, Eastern Europe, Russia, and Latin America. Each region has its own brand and product preferences.

International buyers, either directly or through a broker, account for between 25% and 30% of the purchases at some salvage auctions. International buyers will often pay higher prices for the right make and model than domestic bidders and will buy vehicles that require more extensive restoration.

**Repairable Dealers Base Their Bids on Whole Car Values and the Cost of Repair**

Repairable dealers and rebuilders benchmark on the value of comparable vehicles in whole car auctions and adjust their bids based upon all costs associated with buying and restoring the vehicle and against the probable retail price. Strong used vehicle prices in whole car auctions in 2009 and 2010 resulted in high prices for repairable units in salvage auctions. Major salvage auctions saw a spike in attendance in 2010 by used car dealers who bid on affordable vehicles with clean titles that could be restored.
Salvage auction volumes had increased annually for more than a decade due to favorable trends in scrappage, rising depreciation rates, and escalating repair costs, which caused more drivers to replace rather than repair their vehicles. However, auction volumes dropped slightly in 2008 and have yet to recover to previous levels.

The supply of vehicles remarketed through salvage auctions is likely to grow in the coming years. The combination of an aging vehicle population, increases in miles traveled, and rising repair costs of newer vehicles with complex construction and components will result in a greater number of vehicles declared a total loss or simply reaching the end of their useful lives.

Repair costs are increasing, especially for newer models that incorporate more high-strength steel and aluminum, electronic components in vulnerable bumpers, more airbags, and expensive headlamps. This will eventually result in an increase in total loss designations for relatively minor collisions.

Recovered Parts and Components Have Held Down Auto Repair Costs

The use of recycled parts and components has helped to control the escalation in repair costs. High-volume models and those that have been in production for several years, and thus have strong aftermarket parts demand, often command premium prices compared to very old or low-sales-volume models. Newer models generally are more valuable than very old ones because of the likelihood of limited supply of repair parts. Luxury vehicles are always more valuable than mass-market vehicles for the value of recoverable content. Dismantlers and recyclers also monitor global price trends for metals and automotive scrap because of international demand for these materials. Exchange rates will also influence vehicle values.

Outlook for the Salvage Vehicle Market

Salvage auction volumes had increased annually for more than a decade due to favorable trends in scrappage, rising depreciation rates, and escalating repair costs, which caused more drivers to replace rather than repair their vehicles. However, auction volumes dropped slightly in 2008 and have yet to recover to previous levels.

The supply of vehicles remarkedeted through salvage auctions is likely to grow in the coming years. The combination of an aging vehicle population, increases in miles traveled, and rising repair costs of newer vehicles with complex construction and components will result in a greater number of vehicles declared a total loss or simply reaching the end of their useful lives.

Repair costs are increasing, especially for newer models that incorporate more high-strength steel and aluminum, electronic components in vulnerable bumpers, more airbags, and expensive headlamps. This will eventually result in an increase in total loss designations for relatively minor collisions.

Dismantlers and Recyclers Dominate Salvage Auction Bidding

Approximately 70% of the customers at salvage auctions are recyclers and dismantlers. These bidders are highly sophisticated and view the vehicle as a collection of recoverable parts and components. Buyers pay a premium for vehicles with working engines that can be driven through the lanes. Salvage auctions provide repair services to improve the value of vehicles just as selective reconditioning raises the values of whole used vehicles.

Recovered Parts and Components Have Held Down Auto Repair Costs

The use of recycled parts and components has helped to control the escalation in repair costs. High-volume models and those that have been in production for several years, and thus have strong aftermarket parts demand, often command premium prices compared to very old or low-sales-volume models. Newer models generally are more valuable than very old ones because of the likelihood of limited supply of repair parts. Luxury vehicles are always more valuable than mass-market vehicles for the value of recoverable content. Dismantlers and recyclers also monitor global price trends for metals and automotive scrap because of international demand for these materials. Exchange rates will also influence vehicle values.

Outlook for the Salvage Vehicle Market

Salvage auction volumes had increased annually for more than a decade due to favorable trends in scrappage, rising depreciation rates, and escalating repair costs, which caused more drivers to replace rather than repair their vehicles. However, auction volumes dropped slightly in 2008 and have yet to recover to previous levels.

The supply of vehicles remarkedeted through salvage auctions is likely to grow in the coming years. The combination of an aging vehicle population, increases in miles traveled, and rising repair costs of newer vehicles with complex construction and components will result in a greater number of vehicles declared a total loss or simply reaching the end of their useful lives.

Repair costs are increasing, especially for newer models that incorporate more high-strength steel and aluminum, electronic components in vulnerable bumpers, more airbags, and expensive headlamps. This will eventually result in an increase in total loss designations for relatively minor collisions.

Self-service end-of-life operators, also called “pick ‘n’ pulls”, acquire vehicles from many sources, including salvage auctions, and place them in lots where mechanics and do-it-yourself shoppers can remove and purchase the parts they need. The largest pick ‘n’ pulls operator processes about 300,000 vehicles each year.
Vehicle scrappage is expected to increase as the economy recovers and drivers replace their older vehicles. Higher vehicle quality and the greater percentage of pickup trucks (which stay on the road 200,000 miles or more) in the population have contributed to the aging of the vehicle population. The average age of the vehicle population is now 10.2 years old, an all-time high.

**Total Resource Auctions Establishes National Network**

In early 2011, Total Resource Auctions (TRA) assumed the operations of 22 SADISCO salvage auctions in seven Southern states. SADISCO has been serving the insurance industry and government and commercial fleets with the full range of salvage auction services for 50 years. With the addition of these facilities, TRA establishes a national footprint of nearly 100 auction locations with approximately half co-located with Manheim whole-car locations.

TRA provides customers with a full range of collection, repair, and storage services unique to the salvage market. In 2010, TRA saw an increase in the number of dealers both remarketing unwanted inventory through TRA sales and buying rebuildable vehicles for restoration. At TRA, the online sales percentage tops 40%, approximately double that of whole car auctions. Simulcast enables online bidders to view the vehicles being driven to the block. Since being able to run the engine and drive the vehicle provides critical information to buyers, they especially value Simulcast events.

As in the case of whole cars, buyers can search online inventory of salvage vehicles prior to upcoming sales. Each listing typically includes multiple photos, the name of the seller, title information, and other vehicle details. Although salvage auctions have a higher percentage of online sales than do whole car auctions, in actuality, most buyers take the time to physically inspect the vehicles themselves, or have their representatives do that prior to a sale.

14.8 million tons of steel were recycled from automobiles in 2008. Recycling rates for automobiles are often near 100% as older vehicles are often heavier than new cars.

*American Recycler Magazine, February 2010*
Total Resource Auctions, Manheim's Salvage Division

Source: Total Resource Auctions
Manheim Consulting: Applying Data Analytics to Improve Remarketing Performance

Manheim Consulting is the only resource of its kind in the remarketing industry. A team of experienced statisticians, mathematicians, and analysts access the Manheim database (representing millions of transactions in the company’s live and online auctions) to answer both overarching and granular questions posed by clients. The unbiased research and performance reviews enable dealers and commercial consignors to continuously improve their remarketing strategies.

Services and Publications

In addition to proprietary research and reports prepared for individual clients, Manheim Consulting reports on economic and used vehicle market conditions.

Manheim Used Vehicle Value Index (MUVVI): The most widely quoted indicator of wholesale used vehicle values is updated on the fifth business day of each month. Current and historical data can be accessed at www.manheim.com/consulting. Manheim’s chief economist Tom Webb, the developer of the Index, hosts a quarterly conference call on wholesale price trends during which Tom takes questions. The call is open to all industry professionals. To receive e-mail reminders of upcoming conference calls, please e-mail your name and affiliation to laurie.kuspiel@manheim.com.

Industry Presentations: Manheim Consulting personnel are often frequent speakers at industry events. Recent presentations are posted on www.manheimconsulting.com.

Case Studies: Manheim Consulting analysts often prepare case studies and white papers that have broad significance to the remarketing industry. These reports can be accessed at www.manheimconsulting.com.

Publications: Manheim Consulting is responsible for the publication of the annual and mid-year Used Car Market Reports. These reports provide a comprehensive analysis of the trends within the wholesale and retail used vehicle markets that impact prices, profits, and remarketing strategies of buyers and sellers of used vehicles.

Tom Webb authors a monthly Auto Industry Brief that focuses specifically on the economic conditions that influence the used vehicle marketplace. These publications may be ordered through www.manheimconsultingstore.com.